MAYBANK ISLAMIC BERHAD

(787435-M)

(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements

31 December 2014

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

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Directors' report

The directors have pleasure in presenting their report together with the audited financial statements of Maybank Islamic Berhad ("the Bank") for the financial year ended 31 December 2014.

Principal activities

The Bank is principally engaged in the business of Islamic Banking and the provision of related financial services.

There were no significant changes in the principal activities during the financial year.

Results

	RM'000
Profit before taxation and zakat	1,558,085
Taxation and zakat	(435,707)
Profit for the year	1,122,378

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in Notes 8, 14 and 24 to the financial statements and the statement of changes in equity.

In the opinion of the directors, the results of the operations of the Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

Performance review

The Bank recorded a profit before tax and zakat of RM1,558.1 million for the financial year ended 31 December 2014, a commendable growth of RM164.7 million or 12% over the corresponding financial year ended 31 December 2013.

Total income closed at RM5,761.8 million, a growth of 23% year-on-year; largely contributed by the encouraging growth in the Bank's financing and advances across all segments.

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Performance review (cont'd.)

Overhead expenses recorded at RM959.3 million on the back of higher shared services cost which accounted for 91% of total overhead expenses in line with the Bank's business expansion.

The Bank's total assets grew healthily by RM21.3 billion or 17%, mainly due to growth in gross financing by RM21.7 billion or 25% to RM108.5 billion as compared to RM86.9 billion recorded in the last financial year. However, net impaired financing stood at 0.47% as at 31 December 2014 as compared to 0.46% in the last financial year.

Total deposits from customers closed at RM99.7 billion, higher by RM16.7 billion from RM83.0 billion in 31 December 2013.

Additionally, the Bank has been strengthening its capital position and the Total Capital Ratio stood at 16.088% as at 31 December 2014 (31 December 2013: 13.711%).

Prospects

The global economic growth is expected to record a modest pickup of 3.6% in 2015 from an estimated growth of 3.3% in 2014, led by stronger US growth amid subdued growth in the Eurozone and Japan, and continued slowdown in China. On an aggregate basis, the ASEAN-6 is expected to perform better in 2015 with higher GDP growth in Indonesia, Philippines, Thailand and Vietnam amid steady growth in Singapore and slower growth in Malaysia.

GDP growth for Malaysia is expected to decelerate to 5.0% in 2015 from an estimated 5.9% in 2014 reflecting the impact of lower commodity prices and fiscal reforms (Goods and Services Tax (GST) and removal of fuel subsidies) on consumer and government spending. The decline in crude oil prices also poses risks to the Government budget, trade balance, exchange rate as well as oil and gas activities.

Despite the inflation rate rising to 4%-5% in 2015 (2014: 3.2%), Bank Negara Malaysia is expected keep the Overnight Policy Rate (OPR) at 3.25% for most of 2015 as it shifts its monetary policy bias towards sustaining growth momentum given the one-off, policy driven, cost push spike in inflation from the GST. However, a 25bps hike is expected in late 2015 mainly in reaction to the beginning of the interest rate hike cycle in the US.

Financing growth in Malaysia is likely to moderate slightly in 2015 with industry financing growth projected at 8.3% from 8.7% in 2014 due to household financing growth easing to 9.0% (2014: 10.0%) on the continued impact from Bank Negara's tighter lending criteria to curb excessive household debt while the growth of non-household financing is expected to pick up to 7.4% (2014: 6.9%). The Bank aims to perform in line with industry growth and continue expanding fee-income generating activities.

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Prospects (cont'd.)

The 2013 Islamic Financial Services Act ("IFSA") is expected to facilitate Islamic banks to include their role as an investment intermediary, in which the different modes of risk sharing contracts can be applied. The nature of structures unique to Islamic finance, backed by strong commitment from the government and relevant authorities represents a unique opportunity for Islamic finance to innovate the banking industry as a whole in Malaysia.

Singapore's growth is expected to remain steady at 3.0% in 2015, the same as in 2014 as the projected US-driven improvement in external trade given the moderate pick up in the global economy counters the soft property market, and existing domestic structural and cost issues. Specific to Islamic banking, the focus is to build Singapore as our regional centre to reach out to global investors with our wholesale business as we continue with the development of domestic Islamic banking business in Singapore as an alternative banking solution for the community.

Indonesia's GDP growth is forecasted to improve to 5.5% in 2015 from an estimated 5.1% in 2014 upon post-election normalisation, positive economic fundamentals and increase in infrastructure and government spending. Interest rates are expected to remain high but stable at 7.75% with a 25bps hike only expected in Q4 2015. In 2014, Bank Internasional Indonesia Unit Usaha Syariah's (BII UUS) focus was successfully implemented through the launching and execution of 'Syariah First Strategy' across BII in May 2014 where selected Shariah products are introduced to customers by default; and in the optimised expansion of delivery channel from 7 standalone branches and 269 dual branches in 2013 to 9 standalone branches and 450 dual branches in 2014. The Group-wide commitment and foundations set in 2014 will enable the Bank to further build scale for our Islamic banking franchise in Indonesia and is a testament to the opportunities that we believe we can unlock and develop in the market.

2015 will be the start of our systemic innovation in Maybank Group Islamic Banking ("MGIB"), centred on unlocking the values and opportunities that are unique to Islamic finance. At the core of this is the fundamental innovation in risk management, as we embark on evolving the elements of risk participation and risk sharing between the Bank and our stakeholders across various products and services. This will further advance our efforts in linking finance to the real economy and will continue to redefine our partnership with corporates and communities in driving for more inclusive and balanced growth.

Dividend

The amount of dividend paid by the Bank since 31 December 2013 were as follows:

	RM'000
In respect of the financial year ended 31 December 2013 as reported in the directors' report of that year:	
Final tax exempt (single-tier) dividend of RM1.83 per share on 218,988,000 ordinary shares, settled on 26 March 2014	**400,748**

Dividend (cont'd.)

In respect of the financial year ended 31 December 2014:

	RM'000
Interim tax exempt (single-tier) dividend of RM1.45 per share on 246,361,500 ordinary shares, paid on 29 August 2014	**357,224**

At the forthcoming Annual General Meeting, a final tax-exempt (single tier) dividend in respect of the financial year ended 31 December 2014 of RM0.69 per share on 246,361,500 ordinary shares, amounting to a dividend payable of RM169,989,435 will be proposed for the shareholder's approval.

The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholder, will be accounted for in equity as an appropriation of retained profits in the next financial year ending 31 December 2015.

Maybank Group Employee Share Scheme

The Maybank Group Employees' Share Scheme ("ESS") is governed by the by-laws approved by the parent's i.e. Malayan Banking Berhad ("Maybank")'s shareholders at an Extraordinary General Meeting held on 13 June 2011. The ESS has been implemented on 23 June 2011 and is in force for a maximum period of seven (7) years from the effective date for eligible employees and executive directors within Maybank Group.

The maximum number of ordinary shares of RM1 each in Maybank available under the ESS should not exceed 10% of the total number of issued and paid-up capital of Maybank at any point of time during the duration of the scheme.

Issues of share capital

During the current financial year, the Bank increased its issued and paid-up share capital from RM218,988,000 to RM246,361,500 via issuance of 27,373,500 new ordinary shares of RM1.00 each at a premium of RM13.64 per shares to Maybank on the basis of one new share for every eight existing ordinary shares held.

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Directors

The directors of the Bank in office since the date of the last report and at the date of this report are:

Dato' Seri Ismail bin Shahudin
Tan Sri Datuk Dr Hadenan bin A. Jalil
En Zainal Abidin bin Jamal
Tan Sri Ahmad Fuzi Abdul Razak
Dato' Dr Muhammad Afifi al-Akiti
En Dali bin Sardar (appointed on 11 August 2014)
Datuk Dr Syed Othman bin Syed Hussin Alhabshi (retired on 29 January 2014)

Directors' benefits

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Bank was a party, whereby the directors might acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors from the Bank as disclosed in Note 27 to the financial statements and from related corporations) by reason of a contract made by the Bank or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

Directors' interests

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares and options over shares in the holding company, Maybank, during the financial year were as follows:

	|----- Number of ordinary shares of RM1 each -----|			
	1.1.2014	**Acquired**	**Issued pursuant to DRP***	**31.12.2014**
Dato' Seri Ismail bin Shahudin	24,304	-	1,271	25,575

None of the other directors in office at the end of the financial year had any interest in shares in the Bank or other related corporations during the financial year.

*DRP is defined as Dividend Reinvestment Plan.

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Rating by external rating agency

Details of the Bank's ratings are as follows:

Rating agency	Date	Rating classification	Rating received
RAM Ratings Services Berhad ("RAM")	30 December 2014	Long-term Financial Institution Rating	AAA
		Short-term Financial Institution Rating	P1
		Outlook (Long Term)	Stable
Malaysian Rating Corporation Berhad	10 June 2014	Long-term Financial Institution Rating	AAA
		Short-term Financial Institution Rating	MARC-1
		Outlook (Long Term)	Stable

Other statutory information

(a) Before the statement of financial position and income statement of the Bank were made out, the directors took reasonable steps:

(i) to ascertain that proper action had been taken in relation to the writing off of bad financing and the making of allowance for doubtful financing and satisfied themselves that all known bad financing had been written off and that adequate allowance had been made for doubtful financing; and

(ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Bank which would render:

(i) the amount written off for bad financing or the amount of the allowances for doubtful financing in the financial statements of the Bank inadequate to any substantial extent; and

(ii) the values attributed to current assets in the financial statements of the Bank misleading.

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Other statutory information (cont'd.)

(c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Bank misleading or inappropriate.

(d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements the Bank which would render any amount stated in the financial statements misleading.

(e) At the date of this report, there does not exist:

  (i) any charge on the assets of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or

  (ii) any contingent liability of the Bank which has arisen since the end of the financial year other than those arising in the normal course of business of the Bank.

(f) In the opinion of the directors:

  (i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Bank to meet its obligations as and when they fall due; and

  (ii) no item or transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Bank for the financial year in which this report is made.

Compliance with Bank Negara Malaysia's Guidelines on Financial Reporting

In the preparation of the financial statements, the directors have taken reasonable steps to ensure that Bank Negara Malaysia's Guidelines on financial reporting have been complied with, including those as set out in the Guidelines on Financial Reporting for Islamic Financial Institutions and the Guidelines on Classification and Impairment Provisions for Financing.

Significant and subsequent events

There were no significant events during the year.

There are no significant adjusting event after the statement of financial position's date up to the date when the financial statements are authorised for issue.

Shariah Committee

The operation of the Bank is governed by Section 28 and 29 of the IFSA, which stipulates that "any licensed institution shall at all times ensure that its aims and operations, business, affairs and activities are in compliance with Shariah and in accordance with the advice or ruling of Shariah Advisory Council ("SAC"), specify standards on Shariah matters in respect of the carrying on of its business, affair or activity" and Section IV of BNM's "Guidelines on the Governance of Shariah Committee for The Islamic Financial Institutions" known as the Shariah Governance Framework ("SGF") (which supersedes the BNM/GPS 1), which stipulates that "Every Islamic institution is required to establish a Shariah Committee".

Based on the above, the duties and responsibilities of the Bank's Shariah Committee are to advise on the overall Islamic Banking operations of the Bank's business in order to ensure compliance with the Shariah requirements.

The roles of the Shariah Committee in monitoring the Bank's activities include:

(a) To advise the Board on Shariah matters in its business operations;

(b) To endorse Shariah Compliance Manual;

(c) To endorse and validate relevant documentations;

(d) To assist related parties on Shariah matters for advice upon request;

(e) To advise on matters to be referred to the SAC;

(f) To provide written Shariah opinion; and

(g) To assist the SAC on reference for advice.

Zakat obligation

The Bank only pays zakat on its business. The Bank does not pay zakat on behalf of the shareholder or depositors.

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Auditors

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors dated 25 February 2015.

Dato' Seri Ismail bin Shahudin

Tan Sri Datuk Dr Hadenan bin A. Jalil

Kuala Lumpur, Malaysia

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Statement by directors
Pursuant to Section 169(15) of the Companies Act, 1965

We, Dato' Seri Ismail bin Shahudin and Tan Sri Datuk Dr Hadenan bin A. Jalil, being two of the directors of Maybank Islamic Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 15 to 140 are properly drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Bank as at 31 December 2014 and of the results and the cash flows of the Bank for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 25 February 2015.

Dato' Seri Ismail bin Shahudin

Tan Sri Datuk Dr Hadenan bin A. Jalil

Kuala Lumpur, Malaysia

Statutory declaration
Pursuant to Section 169(16) of the Companies Act, 1965

I, Muzaffar bin Hisham, being the officer primarily responsible for the financial management of Maybank Islamic Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 15 to 140 are in my opinion correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed Muzaffar bin Hisham
at Kuala Lumpur in the Federal
Territory on 25 February 2015

Muzaffar bin Hisham

Before me,

COMMISSIONER FOR OATHS
No. W 530
TAN SEOK KETT
MALAYSIA

Lot 350, 3rd Floor, Wisma MPL
Jalan Raja Chulan,
50200 Kuala Lumpur.

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Shariah Committee's report

In the Name of Allah, The Compassionate, The Most Merciful.

All Praise is due to Allah, the Cherisher of the World, and the Peace and Blessing be upon the Prophet of Allah, on his Family and all his Companions.

Assalamualaikum Warahmatullahi Wabarakatuh
To the shareholder, depositors and customers of Maybank Islamic Berhad (the "Bank"):

We, the members of the Shariah Committee of the Bank (the “Committee"), do hereby confirm that we have reviewed the principles and the contracts relating to the transactions and applications introduced by the Bank from 1 January 2014 until 31 December 2014. The Committee and its sub-committee, Shariah Working Committee held twelve (12) and eleven (11) meetings respectively to review and approve various products, transactions and processes.

We have provided the Shariah advisory services on various aspects to the Bank in order to ensure compliance with applicable Shariah principles as well as the relevant resolutions and rulings made by the Shariah Advisory Councils of the regulatory bodies.

The Bank has carried out Shariah audit performed by Internal Audit Division and Shariah review by Shariah Review and Compliance throughout the organisation and the reports were deliberated in the Committee meetings. The Committee hereby confirms that appropriate efforts have been taken to rectify the Shariah gaps, and the Bank has also implemented several mechanism(s) to prevent similar Shariah gaps from recurring. Moreover, the Bank has organised a Shariah training program region wide to disseminate Shariah compliance awareness culture throughout the organisation.

The Bank's management is responsible for ensuring that the Bank conducts its business in accordance with Shariah rules and principles. It is our responsibility to form an independent opinion, based on our review of the operations of the Bank and to report to you.

We are of the opinion that:

(a) The new products, business initiative and enhanced processes introduced by the Bank during the year ended 31 December 2014, that we have reviewed are in compliance with the Shariah rules and principles;

(b) The contracts, transactions and dealings entered into by the Bank during the year ended 31 December 2014, that we have reviewed are in compliance with the Shariah rules and principles;

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Shariah Committee's report (cont'd.)

(c) The main funding sources and investments of the Bank disclosed to us conform to the basis that had been approved by us in accordance with the Shariah rules and principles;

(d) The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah principles; and

(e) The Shariah non-compliance events and disposal of any earnings from prohibited sources/means by the Bank during the year ended 31 December 2014 had been channeled to the donation/charity fund as disclosed in Note 39; and

(f) The financial statements of the Bank for the year ended 31 December 2014 together with the calculation of Zakat disclosed to us are in compliance with the Shariah rules and principles.

We beg Allah the Almighty to Grant us all the Success and Straight-Forwardness and Allah Knows Best.

Assoc. Prof. Dr. Aznan Hasan
Chairman of the Committee

Assoc. Prof. Dr. Ahcene Lahsasna
Member of the Committee

Kuala Lumpur, Malaysia
25 February 2015

Ernst & Young AF: 0039
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Building a better working world

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Independent auditors' report to the member of Maybank Islamic Berhad (Incorporated in Malaysia)

Report on the financial statements

We have audited the financial statements of Maybank Islamic Berhad, which comprise the statement of financial position as at 31 December 2014, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 15 to 140.

Directors' responsibility for the financial statements

The directors of the Bank are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Independent auditors' report to the member of Maybank Islamic Berhad (cont'd.)
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Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2014 and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on other legal and regulatory requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.

Other matters

This report is made solely to the member of the Bank, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young
AF: 0039
Chartered Accountants

Chan Hooi Lam
No. 2844/02/16(J)
Chartered Accountant

Kuala Lumpur, Malaysia
25 February 2015

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Statement of financial position as at 31 December 2014

	Note	2014 RM'000	2013 RM'000
Assets			
Cash and short-term funds	5	**17,863,965**	17,680,040
Deposits and placements with banks and other financial institutions	6	**-**	50,025
Financial investments portfolio	7	**9,247,496**	8,935,209
Financing and advances	8	**107,729,239**	86,135,734
Derivative assets	9	**169,535**	134,141
Other assets	10	**7,571,469**	8,770,145
Statutory deposit with Bank Negara Malaysia	11	**3,778,000**	3,084,000
Deferred tax assets	17	**34,702**	267,403
Total assets		**146,394,406**	125,056,697
Liabilities			
Deposits from customers	12	**99,695,272**	83,017,613
Deposits and placements of banks and other financial institutions	13	**36,544,789**	33,371,301
Bills and acceptances payable		**5,947**	62,124
Derivative liabilities	9	**273,864**	247,952
Other liabilities	14	**79,666**	97,915
Provision for taxation and zakat	16	**38,269**	192,479
Subordinated sukuk	18	**2,527,629**	1,010,782
Recourse obligation on financing sold to Cagamas	19	**-**	620,976
Total liabilities		**139,165,436**	118,621,142
Equity attributable to equity holder of the Bank			
Share capital	20	**246,362**	218,988
Reserves	21	**6,982,608**	6,216,567
		7,228,970	6,435,555
Total liabilities and shareholder's equity		**146,394,406**	125,056,697
Commitments and contingencies	33	**37,707,274**	33,984,669

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

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Income statement
For the year ended 31 December 2014

	Note	2014 RM'000	2013 RM'000
Income derived from investment of depositors' funds	22	**5,521,124**	4,461,652
Income derived from investment of shareholder's funds	23	**240,664**	212,015
Allowances for losses on financing and advances	24	**(82,622)**	(1,016)
Total distributable income		**5,679,166**	4,672,651
Income attributable to the depositors	25	**(3,067,032)**	(2,363,026)
Total net income		**2,612,134**	2,309,625
Overhead expenses	26	**(959,279)**	(874,032)
Finance cost	28	**(94,770)**	(42,200)
Profit before taxation and zakat		**1,558,085**	1,393,393
Taxation	29	**(416,517)**	(322,589)
Zakat		**(19,190)**	(21,467)
Profit for the year attributable to equity holder of the Bank		**1,122,378**	1,049,337
Earnings per share attributable to equity holder of the Bank - basic/diluted (sen)	30	**467.5**	730.7

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

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Statement of comprehensive income
For the year ended 31 December 2014

	2014 RM'000	2013 RM'000
Profit for the year	**1,122,378**	1,049,337
Other comprehensive income/(loss):		
Items that may be reclassified subsequently to profit or loss		
Net gain/(loss) on financial investments available-for-sale	**37,681**	(212,204)
Income tax relating to components of other comprehensive income (Note 17)	**(9,420)**	53,051
Other comprehensive income/(loss) for the financial year	**28,261**	(159,153)
Total comprehensive income for the year, net of tax	**1,150,639**	890,184
Total comprehensive income attributable to :		
Equity holder of the Bank	**1,150,639**	890,184

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

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Statement of changes in equity
For the year ended 31 December 2014

	<------	------	------	Non-distributable	------	------	------>	Distributable	
	Share capital (Note 20) RM'000	Share premium (Note 21) RM'000	Equity contribution from the holding company (Note 21) RM'000	Statutory reserve (Note 21) RM'000	Unrealised holding reserve/ (deficit) (Note 21) RM'000	Profit equalisation reserve (Note 21) RM'000	Regulatory reserve (Note 21) RM'000	Retained profits (Note 21) RM'000	Total equity RM'000
At 1 January 2014	218,988	3,725,969	1,697	409,672	(127,879)	34,456	-	2,172,652	6,435,555
Profit for the year	-	-	-	-	-	-	-	1,122,378	1,122,378
Other comprehensive income	-	-	-	-	28,261	-	-	-	28,261
Total comprehensive income for the year	-	-	-	-	28,261	-	-	1,122,378	1,150,639
Issue of ordinary shares	27,374	373,374	-	-	-	-	-	-	400,748
Dividend on ordinary shares **(Note 31)**	-	-	-	-	-	-	-	(757,972)	(757,972)
Transfer to statutory reserve	-	-	-	-	-	-	-	-	-
Transfer to regulatory reserve	-	-	-	-	-	-	274,500	(274,500)	-
Total transactions with shareholder	27,374	373,374	-	-	-	-	274,500	(1,032,472)	(357,224)
At 31 December 2014	246,362	4,099,343	1,697	409,672	(99,618)	34,456	274,500	2,262,558	7,228,970

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Statement of changes in equity
For the year ended 31 December 2014 (cont'd.)

	<---------- Non-distributable						---------->	Distributable	
	Share capital (Note 20) RM'000	**Share premium (Note 21) RM'000**	**Equity contribution from the holding company (Note 21) RM'000**	**Statutory reserve (Note 21) RM'000**	**Unrealised holding reserve/ (deficit) (Note 21) RM'000**	**Profit equalisation reserve (Note 21) RM'000**	**Regulatory reserve (Note 21) RM'000**	**Retained profits (Note 21) RM'000**	**Total equity RM'000**
At 1 January 2013	132,720	2,687,480	1,697	147,338	31,274	34,456	-	1,510,406	4,545,371
Profit for the year	-	-	-	-	-	-	-	1,049,337	1,049,337
Other comprehensive loss	-	-	-	-	(159,153)	-	-	-	(159,153)
Total comprehensive income for the year	-	-	-	-	(159,153)	-	-	1,049,337	890,184
Issue of ordinary shares	86,268	1,038,489	-	-	-	-	-	-	1,124,757
Dividend on ordinary shares (Note 31)	-	-	-	-	-	-	-	(124,757)	(124,757)
Transfer to statutory reserve	-	-	-	262,334	-	-	-	(262,334)	-
Total transactions with shareholder	86,268	1,038,489	-	262,334	-	-	-	(387,091)	1,000,000
At 31 December 2013	218,988	3,725,969	1,697	409,672	(127,879)	34,456	-	2,172,652	6,435,555

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Maybank Islamic Berhad
(Incorporated in Malaysia)

Statement of cash flows
For the year ended 31 December 2014

	2014 RM'000	2013 RM'000
Cash flows from operating activities		
Profit before taxation and zakat	**1,558,085**	1,393,393
Adjustments for:		
Amortisation of premium less accretion of discount	**(47,223)**	(56,530)
Allowances for losses on financing and advances	**204,185**	138,559
Unrealised (gains)/losses on revaluation of derivatives	**(17,266)**	17,830
Unrealised (gains)/losses on revaluation of financial investments at fair value through profit or loss	**(4,660)**	10,129
Gains on sale of financial investments available-for-sale	**(2,513)**	(21,199)
Gains on sale of financial investments at fair value through profit or loss	**(7,066)**	(63,426)
Gains on foreign exchange translations	**(53,908)**	(103,768)
Share options granted under ESS	**1,970**	1,584
Operating profit before working capital changes	**1,631,604**	1,316,572
Change in deposits and placements with banks and other financial institutions	**50,025**	221,309
Change in financial investments portfolio	**(213,145)**	493,568
Change in financing and advances	**(21,797,690)**	(24,966,223)
Change in derivative assets and liabilities	**7,785**	30,229
Change in other assets	**1,198,677**	(4,090,685)
Change in statutory deposit with Bank Negara Malaysia	**(694,000)**	(685,000)
Change in deposits from customers	**16,677,659**	12,033,145
Change in deposits and placements of banks and other financial institutions	**3,227,396**	20,341,440
Change in bills and acceptances payable	**(56,178)**	(357,625)
Change in other liabilities	**74,551**	(46,770)
Cash generated from operations	**106,684**	4,289,960
Taxes and zakat paid	**(366,636)**	(300,797)
Net cash (used in)/generated from operating activities	**(259,952)**	3,989,163

Maybank Islamic Berhad
(Incorporated in Malaysia)

Statement of cash flows
For the year ended 31 December 2014 (cont'd.)

	2014 RM'000	2013 RM'000
Cash flows from financing activities		
Proceeds from issuance of Tier 2 Capital Subordinated Sukuk	**1,500,000**	-
Proceeds from issuance of shares	**400,748**	1,124,757
Dividend paid	**(757,972)**	(124,757)
Dividend paid for Subordinated sukuk	**(77,923)**	(42,200)
Financing sold to Cagamas, net of repayment	**(620,976)**	(284,205)
Net cash generated from financing activities	**443,877**	673,595
Net increase in cash and cash equivalents	**183,925**	4,662,758
Cash and cash equivalents at beginning of year	**17,680,040**	13,017,282
Cash and cash equivalents at end of year	**17,863,965**	17,680,040
Cash and cash equivalents comprise:		
Cash and short term funds	**17,863,965**	17,680,040

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Notes to the financial statements - 31 December 2014

1. Corporate information

The Bank is principally engaged in the business of Islamic Banking and the provision of related financial services. There were no significant changes in these activities during the financial year.

The Bank is a public limited liability company, incorporated on 5 September 2007 and domiciled in Malaysia. The registered office of the Bank is located at 14th Floor, Menara Maybank, 100 Jalan Tun Perak, 50050 Kuala Lumpur.

The holding company of the Bank is Malayan Banking Berhad ("Maybank"), a licensed bank incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

These financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 25 February 2015.

2. Basis of preparation and presentation of the financial statements

The financial statements of the Bank have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS"), and the requirements of the Companies Act, 1965 in Malaysia.

The financial statements of the Bank have been prepared under the historical cost basis unless otherwise indicated in the summary of significant accounting policies disclosed in Note 3.

The Bank presents the statement of financial position in the order of liquidity.

Financial assets and financial liabilities are offset and the net amounts are reported in the statement of financial position of the Bank only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the income statement of the Bank unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

The financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand (RM'000) unless otherwise stated.

3. Summary of significant accounting policies

(i) Financial assets

(a) Date of recognition

All financial assets are initially recognised on the trade date i.e. the date that the Bank becomes a party to the contractual provision of the instruments. This includes regular way trades, purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

(b) Initial recognition and subsequent measurement

All financial assets are measured initially at their fair value plus directly attributable transaction costs, except in the case of financial assets recorded at fair value through profit or loss. Financial assets within the scope of MFRS 139 are classified as financial assets at fair value through profit or loss, financing and advances, financial investments held-to-maturity and financial investments available-for-sale. The classification of financial assets at initial recognition depends on the purpose and the management's intention for which the financial assets were acquired and their characteristics. The Bank determines the classification of financial assets at initial recognition, in which the details are disclosed below.

Included in financial assets are the following:

(1) Financial assets at Fair Value Through Profit or Loss ("FVTPL")

Financial assets at FVTPL include financial assets held-for-trading ("HFT") and financial assets designated at FVTPL upon initial recognition. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by MFRS 139.

For financial assets designated at FVTPL, upon initial recognition the following criteria must be met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or

3. **Summary of significant accounting policies (cont'd.)**

(i) **Financial assets (cont'd.)**

(b) **Initial recognition and subsequent measurement (cont'd.)**

(1) **Financial assets at Fair Value Through Profit or Loss ("FVTPL") (cont'd.)**

- the assets and liabilities are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Included in financial assets designated at FVTPL are derivatives (including separated embedded derivatives), debt securities and equities.

Subsequent to initial recognition, financial assets held-for-trading and financial assets designated at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recognised in the income statement under the caption of 'other operating income'.

(2) **Financing and receivables**

Financing and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified in this category include cash and bank balances and financing and advances. These financial assets are initially recognised at fair value, including direct and incremental transaction costs, and subsequently measured at amortised cost using the effective yield method, less accumulated impairment losses.

(3) **Financial investments held-to-maturity ("HTM")**

Financial investments HTM are non-derivative financial assets with fixed or determinable payments and fixed maturity, which the Bank has the intention and ability to hold to maturity.

Subsequent to initial recognition, financial investments HTM are measured at amortised cost using the effective yield method, less accumulated impairment losses. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective yield/profit rate. The amortisation, losses arising from impairment and gain or loss arising from derecognition of such investments are recognised in the income statement.

3. Summary of significant accounting policies (cont'd.)

(i) Financial assets (cont'd.)

(b) Initial recognition and subsequent measurement (cont'd.)

(3) Financial investments held-to-maturity ("HTM") (cont'd.)

If the Bank were to sell or reclassify more than an insignificant amount of financial investments HTM before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as financial investments available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial investments as held-to-maturity over the following two years. During the financial year ended 31 December 2014, the Bank did not reclassify any of its financial investments HTM as financial investments available-for-sale.

(4) Financial investments available-for-sale ("AFS")

Financial investments AFS are financial assets that are not classified in any of the three (3) preceding categories.

Financial investments AFS include equity and debt securities. Financial investments in this category are intended to be held for an indefinite period of time and which may be sold in response to liquidity needs or changes in market conditions.

After initial recognition, financial investments AFS are subsequently measured at fair value. Unrealised gains and losses are recognised directly in other comprehensive income and in the 'AFS reserve', except for impairment losses, foreign exchange gains or losses on monetary financial assets and profit income calculated using the effective interest method are recognised in the income statement. Dividends on financial investments AFS are recognised in the income statement when the Bank's right to receive payment is established. When the Bank derecognises financial investments AFS, the cumulative unrealised gain or loss previously recognised in the ‘AFS reserve’ is reclassified to the income statement under the caption of 'other operating income'.

3. Summary of significant accounting policies (cont'd.)

(i) Financial assets (cont'd.)

(c) Derecognition

A financial asset is derecognised when:

(1) The rights to receive cash flows from the asset have expired.

(2) The Bank has transferred its rights to receive cash flows from the financial asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass through" arrangement; and either:

   (i) the Bank has transferred substantially all the risks and rewards of the financial asset, or

   (ii) the Bank has neither transferred nor retained substantially all the risks and rewards of the financial asset, but has transferred control of the financial asset.

When the Bank has transferred its rights to receive cash flows from a financial asset or has entered into a "pass through" arrangement, they evaluate to what extent they have retained the risks and rewards of ownership. When the Bank has neither transferred nor retained substantially all the risks and rewards of the financial asset and have not transferred control of the financial asset, the Bank continues to recognise the transferred financial asset to the extent of the Bank's continuing involvement in the financial asset. In that case, the Bank also recognises an associated financial liability. The transferred financial asset and associated financial liability are measured on a basis that reflect the rights and obligations that the Bank has retained.

(d) Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset, including security or a group of securities (other than financial assets at FVTPL) is impaired. A financial asset or a group of financial assets is deemed to be impaired if and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event(s) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

3. Summary of significant accounting policies (cont'd.)

(i) Financial assets (cont'd.)

(d) Impairment of financial assets (cont'd.)

Evidence of impairment may include indications that the borrower or a group of borrowers experiencing significant financial difficulty, the probability that they will enter bankruptcy or other reorganisation, default or delinquency in profit or principal payments or where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in economic conditions that correlate with defaults.

(1) Financing and advances

Classification of financing and advances as impaired

Financing and advances are classified as impaired when:

- principal or profit or both are past due more than three (3) months; or
- financing in arrears for less than three (3) months exhibit indications of credit weaknesses, whether or not impairment loss has been provided for; or
- an impaired financing has been rescheduled or restructured, the financing will continue to be classified as impaired until repayments based on the revised and/or restructured terms have been observed continuously for a period of six (6) months; or
- default occurs for repayments scheduled on intervals of three (3) months or longer.

Impairment Process – Individual Assessment

The Bank assesses if objective evidences of impairment exist for financing and advances which are deemed to be individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the carrying amount of the financing and advances and the present value of the estimated future cash flows discounted at the original effective yield/profit rate of the financing and advances. The carrying amount of the financing and advances is reduced through the use of an impairment allowance account and the amount of the impairment loss is recognised in the income statement.

3. **Summary of significant accounting policies (cont'd.)**

(i) Financial assets (cont'd.)

(d) Impairment of financial assets (cont'd.)

(1) Financing and advances (cont'd.)

Impairment Process – Collective Assessment

Financing and advances which are not individually significant and that have been individually assessed with no evidence of impairment loss are grouped together for collective impairment assessment. These financing and advances are grouped within similar credit risk characteristics for collective assessment, whereby data from the financing portfolio (such as credit quality, levels of arrears, credit utilisation, financing to collateral ratios etc.) and concentrations of risks (such as the performance of different individual groups) are taken into consideration.

Future cash flows in a group of financing and advances that are collectively evaluated for impairment are estimated based on the historical loss experience of the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that do not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for a group of assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

Impairment Process – Subsequent Measurement

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or written back by adjusting the allowances for impairment losses on financing and advances account.

3. Summary of significant accounting policies (cont'd.)

(i) Financial assets (cont'd.)

(d) Impairment of financial assets (cont'd.)

(1) Financing and receivables (cont'd.)

Impairment Process – Written off accounts

When there is no realistic prospect of future recovery, the financing and advances are written off against the related allowance for impairment. Such financing and advances are written off after the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts which previously written off are recognised in the income statement under the caption of 'allowances for losses on financing and advances'.

(2) Financial investments available-for-sale ("AFS")

For financial investments AFS, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as financial investments AFS, the objective evidence would include a "significant" or "prolonged" decline in the fair value of the investment below its cost. The Bank treats "significant" generally as 25% and "prolonged" generally as for consecutive quarters. When there is evidence of impairment, the cumulative loss (which is measured as the difference between the acquisition cost and the current fair value, less any accumulated impairment loss on that investment previously recognised in the income statement) that had been recognised in other comprehensive income is reclassified from equity to income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised in other comprehensive income.

For unquoted equity securities carried at cost, impairment loss is measured as the difference between the securities' carrying amount and:

i) the present value of estimated future cash flows discounted at the current market rate of return for similar securities; or

ii) the net tangible assets based on the latest audited accounts.

3. Summary of significant accounting policies (cont'd.)

(i) Financial assets (cont'd.)

(d) Impairment of financial asset (cont'd.)

(2) Financial investments available-for-sale ("AFS") (cont'd.)

The amount of impairment loss for unquoted equity securities is recognised in the income statement and such impairment losses are not reversed subsequent to its recognition until actual cash is received or the trigger originally established as an objective indicator of impairment is reversed.

For quoted equity securities, its impairment losses are not reversed subsequent to its recognition until such equities are disposed.

In the case of debt instruments classified as financial investments AFS, the impairment is assessed based on the same criteria as financial investments HTM. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any accumulated impairment loss on that investment previously recognised in the income statement.

Future profit income continues to be accrued based on the reduced carrying amount of asset by using the rate of profit which is used to discount the future cash flows for the purpose of measuring the impairment loss. If in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

(3) Financial Instruments held-to-maturity ("HTM")

For financial investments HTM, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. If there is objective evidence of impairment on financial investments HTM, impairment loss is measured as the difference between the carrying amount of the financial investments HTM and the present value of the estimated future cash flows discounted at the original effective yield/profit rate of the financial investments HTM. The carrying amount of the financial investments HTM is reduced through the use of an impairment allowance account and the amount of the impairment loss is recognised in the income statement.

3. Summary of significant accounting policies (cont'd.)

(i) Financial assets (cont'd.)

(d) Impairment of financial asset (cont'd.)

(3) Financial Instruments held-to-maturity ("HTM") (cont'd.)

Subsequent reversals in the impairment loss are recognised when the decrease can be objectively related to an event occurring after the impairment loss was recognised, to the extent that the carrying amount of the financial investments HTM does not exceed its amortised cost at the reversal date. The reversal is recognised in the income statement.

(e) Reclassification of financial assets

The Bank may choose to reclassify non-derivative assets out of the financial assets at FVTPL category, in rare circumstances, where the financial assets are no longer held for the purpose of selling or repurchasing in the short term. In addition, the Bank may also choose to reclassify financial assets that would meet the definition of financing and receivables out of the financial assets at FVTPL or financial investments AFS if the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

Reclassifications are made at fair value as at the reclassification date, whereby the fair value becomes the new cost or amortised cost, as applicable.

For a financial asset reclassified out of the financial investments AFS, any previous gain or loss on that asset that has been recognised in equity is amortised to the income statement over the remaining life of the asset using the effective yield method. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective yield method. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the income statement.

Reclassification is at the election of management, and is determined on an instrument-by-instrument basis. The Bank does not reclassify any financial instrument into the FVTPL category after initial recognition or reclassify any financial instrument out of financial investments AFS during the financial year ended 31 December 2014.

3. Summary of significant accounting policies (cont'd.)

(ii) Financial liabilities

(a) Date of recognition

All financial liabilities are initially recognised on the trade date i.e. the date that the Bank becomes a party to the contractual provision of the instruments. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(b) Initial recognition and subsequent measurement

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability. All financial liabilities are measured initially at fair value plus directly attributable transaction costs, except in the case of financial liabilities at FVTPL.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

(1) Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities HFT and financial liabilities designated upon initial recognition at FVTPL.

Financial liabilities HFT include derivatives entered into by the Bank that do not meet the hedge accounting criteria.

The Bank has not designated any financial liabilities as at FVTPL.

(2) Other financial liabilities

The Bank's other financial liabilities include deposits from customers, deposits and placements from financial institutions, debt securities (including borrowings), payables, bills and acceptances payable and other liabilities.

(1) *Deposits from customers, deposits and placements from financial institutions*

Deposits from customers, deposits and placements of banks and financial institutions are stated at placement values.

3. Summary of significant accounting policies (cont'd.)

(ii) Financial liabilities (cont'd.)

(b) Initial recognition and subsequent measurement (cont'd.)

(2) Other financial liabilities (cont'd.)

(2) Debt securities

Debt securities issued by the Bank are classified as financial liabilities or equity in accordance with the substance of the contractual terms of the instruments. The Bank's debt securities issued consist mainly of subordinated notes, Innovative Tier I capital securities and borrowings.

These debt securities are classified as liabilities in the statement of financial position as there is a contractual obligation by the Bank to make cash payments of either principal or profit or both to holders of the debt securities and that the Bank is contractually obliged to settle the financial instrument in cash or another financial instrument.

Subsequent to initial recognition, debt securities issued are recognised at amortised cost, with any difference between proceeds net of transaction costs and the redemption value being recognised in the income statement over the period of the borrowings on an effective yield method.

(3) Payables

Payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective yield method.

(4) *Bills and acceptances payable*

Bills and acceptances payable represent the Bank's own bills and acceptances rediscounted and outstanding in the market. These financial liabilities are measured at amortised cost using the effective yield method.

(5) Other liabilities

Other liabilities are stated at cost which is the fair value of the consideration expected to be paid in the future for goods and services received.

3. Summary of significant accounting policies (cont'd.)

(ii) Financial liabilities (cont'd.)

(c) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the original financial liability and the consideration paid is recognised in the income statement.

(iii) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position of the Bank if there is a currently enforceable legal right to offset the recognised amount and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The financial assets and financial liabilities of the Bank that are subject to offsetting, enforceable master netting arrangements and similar agreements are disclosed in Note 36.

(iv) Derivative financial instruments and hedge accounting

(a) Derivative financial instruments

The Bank trades derivatives such as profit rate swaps, foreign exchange swap, forward foreign exchange contracts and options on profit rates and foreign currencies.

Derivative financial instruments are initially recognised at fair value. For non-option derivatives, their fair value are normally zero or negligible at inception. For purchased or written options, their fair value are equivalent to the market premium paid or received. The derivatives are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques that include discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of any derivatives that do not qualify for hedge accounting are recognised immediately in the income statement.

3. Summary of significant accounting policies (cont'd.)

(iv) Derivative financial instruments and hedge accounting (cont'd.)

(b) Hedge accounting

The Bank uses derivative instruments to manage exposures to profit rate, foreign currency and credit risks. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet specified criteria.

At the inception of the hedge relationship, the Bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship at inception and on ongoing basis.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting.

Hedge ineffectiveness is recognised in the income statement. For situations where the hedged item is a forecast transaction, the Bank also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the income statement.

Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

(1) *Fair value hedge*

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging instrument is recognised in the income statement. Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying amount of the hedged item in the statement of financial position and is also recognised in the income statement.

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying amount is amortised over the remaining term of the hedge using the effective yield/profit method. Effective yield/profit rate amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement.

3. Summary of significant accounting policies (cont'd.)

(iv) Derivative instruments and hedge accounting (cont'd.)

(b) Hedge accounting(cont'd.)

(1) <u>Fair value hedge (cont'd.)</u>

The Bank did not apply fair value hedge as at the end of the current and previous financial year.

(2) <u>Cash flow hedge</u>

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the income statement.

When the hedged cash flow affects the income statement, the gain or loss on the hedging instrument previously recognised as other comprehensive income is transferred to the corresponding income or expense line of the income statement.

When a hedging instrument expires, or is sold, terminated, exercised or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in other comprehensive income remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to income statement.

The Bank did not apply cash flow hedge as at end of the current and previous financial year.

(v) Embedded derivatives

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the income statement.

3. Summary of significant accounting policies (cont'd.)

(vi) Other assets

Other assets are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on a review of all outstanding balances as at the reporting date.

(vii) Cash and short-term funds

Cash and short-term funds in the statement of financial position comprise cash balances and deposits with financial institutions and money at call with a maturity of one month or less, which are subject to an insignificant risk of changes in value.

For the purpose of the cash flow statements, cash and cash equivalents comprise of cash and short-term funds and deposits and placements with financial institutions, with the remaining maturity of less than one month.

(viii) Impairment of non-financial assets

The carrying amounts of non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If there is such indication or when annual impairment testing for an asset is required, the Bank estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit ("CGU")'s fair value less costs to sell and its value-in-use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The Bank bases its value-in-use calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Bank's CGU to which the individual assets are allocated. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

3. Summary of significant accounting policies (cont'd.)

(viii) Impairment of non-financial assets (cont'd.)

For other non-financial assets, an assessment is made at each reporting date as to whether any indication that previously resulted in impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset’s or CGU’s recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

(ix) Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed and recognised in income statement.

(x) Profit Equalisation Reserve (“PER”)

Since 1 July 2012, the Bank has adopted BNM's Revised Guidelines for PER ("the Revised Guideline"). In managing the displaced commercial risk, the Bank will use its current profits to be transferred to depositors on the basis of hibah in the event that there is a shortfall in the actual return on Mudharabah deposits as compared to the published rate of return. The payment of hibah is recognised as cost in the income statement.

(xi) Foreign currencies

(a) Functional and presentation currency

The financial statements are presented in Ringgit Malaysia ("RM") which is the Bank's functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions. Foreign exchange gains or losses resulting from the settlement of such transactions are recognised in the income statement.

3. Summary of significant accounting policies (cont'd.)

(xi) Foreign currencies (cont'd.)

(b) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Bank and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the exchange rates at the date when the fair value was determined.

(xii) Income and deferred taxes and zakat

(a) Income tax

Income tax in the income statement for the year comprises current and deferred taxes. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the reporting date.

(b) Deferred tax

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts at the reporting date.

Deferred tax liabilities are recognised for all temporary differences, except:

(i) when the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3. Summary of significant accounting policies (cont'd.)

(xii) Income and deferred taxes and zakat (cont'd.)

(b) Deferred tax (cont'd.)

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

(i) when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(ii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside income statement is recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3. Summary of significant accounting policies (cont'd.)

(xiii) Zakat

This represents business zakat payable by the Bank to comply with the principle of Shariah. Zakat provision is calculated based on 'Adjusted Growth' method, at 2.5%. The beneficiaries of the zakat fund are determined by the Zakat Committee and subject to the approval of the Shariah Committee.

(xiv) Fair value measurement

The Bank measures financial instruments such as financial investments at FVTPL, financial investments AFS and derivatives at fair value at each statement of financial position date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

3. Summary of significant accounting policies (cont'd.)

(xiv) Fair value measurement (cont'd.)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between fair value hierarchy levels by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The fair value hierarchies of financial instruments and further details as to how they are measured are disclosed in Note 35 - Fair values of financial assets and financial liabilities.

In addition, the fair value hierarchies of financial instruments that are measured at amortised cost are also disclosed in Note 35 under the section - Fair values of financial instruments not carried at fair value.

(xv) Income recognition

For all financial instruments measured at amortised cost and profit-bearing financial investments classified as held-for-trading and available-for-sale, profit income for all profit-bearing financial instruments are recognised within finance income in the income statement using the effective yield method.

3. Summary of significant accounting policies (cont'd.)

(xv) Income recognition (cont'd.)

The effective yield/profit rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the finance income over the relevant period. The effective yield/profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective yield/profit rate, the Bank takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective profit rate, but does not consider future credit losses.

Profit on impaired financial assets is recognised using the rate of profit used to discount the future cash flows for the purpose of measuring the impairment loss.

All income and expense from the business are recognised on an accrual basis in accordance with the principles of Shariah.

(xvi) Other operating income

Commitment and guarantee fees are recognised as income based on time apportionment basis.

Handling fees paid to motor vehicle dealers for Islamic hire purchase financing are amortised in the income statement over the tenure of the financing in accordance with BNM's Circular on "Accounting Treatment of Handling Fees for Hire Purchase Financing" dated 16 October 2006 and is set off against income recognised on the Islamic hire purchase financing.

(xvii) Financing and related expense recognition

Finance cost and income attributable to deposits and borrowings of the Bank are amortised using the effective yield method.

(xviii) Employee benefits

(a) Short-term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the income statement in the year in which the associated services are rendered by employees of the Bank. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

3. Summary of significant accounting policies (cont'd.)

(xviii) Employee benefits (cont'd.)

(b) Defined contribution plans

As required by law, companies in Malaysia make contributions to the Employees Provident Fund ("EPF"). Certain foreign branches of the Bank and subsidiaries make contributions to their respective countries' statutory pension schemes. Such contributions are recognised as an expense in the income statement when incurred.

(c) Share-based compensation

(i) Employee Share Option Scheme ("ESOS")

The ESOS is an equity-settled share-based compensation plan that allows the Bank's Directors and employees to acquire shares of the parent. The total fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in the amount due to parent over the vesting period and taking into account the probability that the options will vest. The fair value of share options is measured at grant date, taking into account, if any, the market vesting conditions upon which the options were granted but excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable on vesting date.

At each reporting date, the parent revises its estimates of the number of options that are expected to become exercisable over the vesting period.

(ii) Restricted share units ("RSU")

Senior management personnel of the parent are entitled to performance-based restricted shares as consideration for services rendered. The RSU may be settled by way of issuance and transfer of new parent shares or by cash at the absolute discretion of the Employees' Share Scheme ("ESS") Committee. The total fair value of RSU granted to senior management employees is recognised as an employee cost with a corresponding increase in the reserve within the parent's equity over the vesting period and taking into account the probability that the RSU will vest. The fair value of RSU is measured at grant date, taking into account, the market vesting conditions upon which the RSU were granted but excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of shares that are expected to be awarded on the vesting date.

3. Summary of significant accounting policies (cont'd.)

(xix) Contingent assets and contingent liabilities

Contingent assets arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the Bank. The Bank does not recognise contingent assets but discloses its existence when inflows of economic benefits are probable, but not virtually certain.

Contingent liabilities are possible obligations that arise from past events, whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank; or are present obligations that have arisen from past events but are not recognised because it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably. The Bank does not recognised contingent liabilities. Contingent liabilities are disclosed, unless the probability of outflow of economic benefits is remote.

(xx) Restricted Profit Sharing Investment Accounts (“RPSIA”)

These deposits are used to fund specific financing and follow the principle of Mudharabah which states that profits will be shared with the Bank as Mudharib and losses shall be borne solely by the depositors. These deposits and financing are recorded in the Bank's financial statement as its liabilities and assets in accordance with MFRS 139. Any impairment allowances required on the financing are not recognised in the profit or loss of the Bank but charged to and borne by the depositors.

(xxi) Changes in accounting policies and disclosures

On 1 January 2014, the Bank adopted the following amended MFRS and Interpretation of the Issues Committee ("IC Interpretations") mandatory for annual financial periods beginning on or after 1 January 2014:

Description	**Effective for annual periods beginning on or after**
MFRS 132 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments to MFRS 132)	1 January 2014
MFRS 136 Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments to MFRS 136)	1 January 2014
MFRS 139 Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments to MFRS 139)	1 January 2014
IC Interpretation 21 *Levies*	1 January 2014

3. Summary of significant accounting policies (cont'd.)

(xxi) Changes in accounting policies and disclosures (cont'd.)

The nature and the impact of the above amendments to standards and IC interpretation are described below:

(i) Offsetting financial assets and financial liabilities (Amendments to MFRS 132)

The amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and retrospective application is required.

The Bank has assessed that the adoption of amendments to MFRS 132 did not have any significant impact to the financial statements of the Bank.

(ii) MFRS 136 Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments to MFRS 136)

The amendments require the disclosure of recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period and retrospective application is required.

(iii) Novation of derivatives and continuation of hedge accounting (Amendments to MFRS 139)

The amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required.

The Bank has not novated derivatives during current year and has assessed that the novation of derivatives in prior years did not meet the criteria required under the amendments to MFRS 139. Hence, the adoption of the above amendments has no impact on the Bank.

(iv) IC Interpretation 21 Levies

The interpretation clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required. The Bank has assessed that the adoption of the interpretation did not have any impact to the financial statements of the Bank.

3. Summary of significant accounting policies (cont'd.)

(xxii) Significant changes in regulatory requirements

Guidance issued by Bank Negara Malaysia ("BNM") on Maintenance of Regulatory Reserve

On 4 February 2014, BNM issued a letter requiring banking institutions to maintain, in aggregate, collective impairment allowance and regulatory reserve of no less than 1.20% of total outstanding financing, net of individual impairment allowance, pursuant to paragraph 13 of the BNM's Policy Document on Classification and Impairment Provisions for Financing.

The regulatory reserve is maintained in addition to the collective impairment allowance that has been assessed and recognised in accordance with MFRS 139 Financial Instruments: *Recognition and Measurement*, and it will be set aside from the retained profits to a separate reserve within equity as an additional credit risk absorbent. Banking institutions are required to comply with this new regulatory requirement by 31 December 2015.

Upon adoption of this requirement, there will be no impact to the income statement of the Bank and any resulting impact will be recorded in the statement of changes in equity of the Bank.

During the financial year ended 31 December 2014, the Bank has made its first transfer of RM274.5 million from its retained profits to regulatory reserve. The transfer is made to ensure compliance with BNM's requirement by 31 December 2015.

(xxiii) Standards and annual improvements to standards issued but not yet effective

The following are standards and annual improvements to standards issued by Malaysian Accounting Standard Board ("MASB"), but not yet effective, up to the date of issuance of the Bank's financial statements. The Bank intends to adopt these standards and annual improvements to standards, if applicable, when they become effective:

	Effective for annual periods beginning on or after
• *MFRS 9 Financial Instruments (IFRS 9 issued by IASB in July 2014)*	1 January 2018
• *MFRS 14 Regulatory Deferral Accounts*	1 January 2016
• MFRS 15 Revenue from Contracts with Customers	1 January 2017
• Annual Improvements to MFRS 2010 - 2012 Cycle	1 July 2014
• Annual Improvements to MFRS 2011 - 2013 Cycle	1 July 2014
• Annual Improvements to MFRS 2012 - 2014 Cycle	1 January 2016

3. Summary of significant accounting policies (cont'd.)

(xxiii) Standards and annual improvements to standards issued but not yet effective (cont'd.)

Adoption of the above standards and interpretations is not expected to have any material impact on the financial statements of the Bank in the period of initial application, except for those discussed below:

MFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board ("IASB") issued the final version of IFRS/MFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39/MFRS 139 *Financial Instruments: Recognition and Measurement* and all previous version of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS/MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015.

(i) Classification and measurement

The classification and measurement of financial assets is determined on the basis of the contractual cash flow characteristics and the objective of the business model associated with holding the asset. Key changes include:

- The held-to-maturity (“HTM”) and available-for-sale (“AFS”) asset categories will be removed;

- A new asset category measured at fair value through other comprehensive income (“FVOCI”) is introduced. This applies to debt instruments with contractual cash flow characteristics that are solely payments of principal and interest and held in a model whose objective is achieved by both collecting contractual cash flows and selling financial assets;

- A new asset category for non-traded equity investments measured at FVOCI is introduced; and

- Classification of financial liabilities will remain largely unchanged, other than the fair value gains and losses attributable to changes in ‘own credit risk’ for financial liabilities designated and measured at fair value through profit or loss to be presented in other comprehensive income.

3. Summary of significant accounting policies (cont'd.)

(xxiii) Standards and annual improvements to standards issued but not yet effective (cont'd.)

MFRS 9 Financial Instruments (cont'd.)

(ii) Impairment

The MFRS 9 impairment requirements are based on an expected credit loss model ("ECL") that replaces the incurred loss model under the current accounting standard. The Bank will be generally required to recognise either a 12-month or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. The ECL model will apply to financial assets measured at amortised cost or at FVOCI, irrevocable financing commitments and financial guarantee contracts, which will include financing and advances and debt instruments held by the Bank. MFRS 9 will change the Bank's current methodology for calculating allowances for impairment, in particular for individual and collective assessment and provisioning.

(iii) Hedge accounting

The requirements for general hedge accounting have been simplified for hedge effectiveness testing and may result in more designations of hedged items for accounting purposes.

The Bank is in the process of assessing the financial implications from adopting the new standard.

MFRS 14 Regulatory Deferral Accounts

MFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of MFRS. Entities that adopt MFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the income statement and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. MFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Bank is an existing MFRS preparer, this standard would not apply.

3. Summary of significant accounting policies (cont'd.)

(xxiii) Standards and annual improvements to standards issued but not yet effective (cont'd.)

MFRS 15 *Revenue from Contracts with Customers*

MFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under MFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in MFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under MFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017, with early adoption permitted. The Bank is currently assessing the impact of adopting this new standard.

Annual Improvements to MFRS

(a) The following amendments are effective for annual periods beginning on or after 1 July 2014 with earlier application permitted:

<u>**Annual Improvements to MFRS 2010 - 2012 Cycle**</u>

(i) MFRS 13 *Fair Value Measurement*

The amendment relates to the IASB's Basis for Conclusions which is not an integral part of the Standard. The Basis for Conclusions clarifies that when IASB issued IFRS/MFRS 13, it did not remove the practical ability to measure short-term receivables and payables with no stated interest rate at invoice amounts without discounting, if the effect of discounting is immaterial.

(ii) MFRS 124 *Related Party Disclosures*

The amendment to MFRS 124 is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party and subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

3. Summary of significant accounting policies (cont'd.)

(xxiii) Standards and annual improvements to standards issued but not yet effective (cont'd.)

Annual Improvements to MFRS

(a) The following amendments are effective for annual periods beginning on or after 1 July 2014 with earlier application permitted (cont'd.):

Annual Improvements to MFRS 2011 - 2013 Cycle

(i) MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards*

The amendment relates to the IASB's Basis for Conclusions which is not an integral part of the Standard. The Basis for Conclusions clarifies that a first-time adopter is permitted but not required to apply a new or revised Standard that is not yet mandatory but is available for early application.

(ii) MFRS 13 *Fair Value Measurement*

The amendment to MFRS 13 is applied prospectively and it clarifies that the scope of the portfolio exception of MFRS 13 includes all contracts accounted for within the scope of MFRS 139 *Financial Instruments: Recognition and Measurement* or MFRS 9 *Financial Instruments*, regardless of whether they meet the definition of financial assets or financial liabilities as defined in MFRS 132 *Financial Instruments: Presentation*.

(b) The following amendments are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted:

Annual Improvements to MFRS 2012 - 2014 Cycle

(i) MFRS 7 *Financial Instruments: Disclosures*

Servicing Contracts
An entity is required to provide disclosures for any continuing involvement in a transferred asset that is derecognised in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity is required to assess the nature of the fee and arrangement against the guidance for continuing involvement in MFRS 7 in order to assess whether the disclosures are required. The amendment is applied retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendment.

3. Summary of significant accounting policies (cont'd.)

(xxiii) Standards and annual improvements to standards issued but not yet effective (cont'd.)

Annual Improvements to MFRS

(b) The following amendments are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted (cont'd.):

Annual Improvements to MFRS 2012 - 2014 Cycle (cont'd.)

(i) MFRS 7 *Financial Instruments: Disclosures (cont'd.)*

Applicability of the amendments to MFRS 7 to condensed interim financial statements
The amendment is applied retrospectively and it removes the phrase "and interim periods within those annual periods" from paragraph 44R, clarifying that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report.

(ii) MFRS 134 *Interim Financial Reporting*

The amendment to MFRS 134 is applied retrospectively and it clarifies the meaning of 'elsewhere in the interim financial report'. It states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g. in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time.

The Bank does not expect that the amendments on the annual improvements for the above standards will have significant financial implications in future financial statements.

4. Significant accounting judgments, estimates and assumptions

The preparation of the Bank's financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of income, expenses, assets, liabilities, the accompanying disclosures and the disclosure of contingent liabilities. Although these estimates and judgments are based on management's best knowledge of current events and actions, actual results may differ. The most significant uses of judgments and estimates are as follows:

4.1 Going concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

4.2 Impairment of financial investments portfolio (Note 7)

The Bank reviews their financial investments AFS and financial investments HTM at each reporting date to assess whether there are any objective evidence that these investments are impaired. If there are indicators or objective evidence, these investments are subjected to impairment review.

In carrying out the impairment review, the following management's judgments are required:

(i) Determination whether the investment is impaired based on certain indicators such as, amongst others, prolonged decline in fair value, significant financial difficulties of the issuers or obligors, the disappearance of an active trading market and deterioration of the credit quality of the issuers or obligors; and

(ii) Determination of "significant" or "prolonged" requires judgment and management evaluation on various factors, such as historical fair value movement, the duration and extent of reduction in fair value.

4.3 Fair value estimation of financial assets at FVTPL (Note 7), financial investments AFS (Note 7) and derivative financial instruments (Note 9)

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair values are measured using valuation techniques. Valuation techniques include the discounted cash flows method, option pricing models, credit models and other relevant valuation models.

4. Significant accounting judgments, estimates and assumptions (cont'd.)

4.3 Fair value estimation of financial assets at FVTPL (Note 7), financial investments AFS (Note 7) and derivative financial instruments (Note 9) (cont'd.)

The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

4.4 Impairment losses on financing and advances (Note 8 and 24)

The Bank reviews its individually significant financing and advances at each reporting date to assess whether an impairment loss should be recorded in the income statement. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgments about the obligor’s or the customer’s financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowances.

Financing and advances that have been assessed individually but for which no impairment is required and all individually insignificant financing and advances are then assessed collectively, in groups of assets with similar credit risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects of which are not yet evident. The collective assessment takes account of data from the financing portfolio (such as credit quality, levels of arrears, credit utilisation, financing to collateral ratios etc.) and judgments on the effect of concentrations of risks (such as the performance of different individual groups).

4.5 Deferred tax (Note 17) and income taxes (Note 29)

The Bank is subject to income taxes in Malaysia and significant judgment is required in estimating the provision for income taxes. There are many transactions and interpretations of tax law for which the final outcome will not be established until some time later. Liabilities for taxation are recognised based on estimates of whether additional taxes will be payable. The estimation process includes seeking advice on the tax treatments where appropriate. Where the final liability for taxation is different from the amounts that were initially recorded, the differences will affect the income tax and deferred tax provisions in the year in which the estimate is revised or the final liability is established.

5. Cash and short-term funds

	2014 RM'000	2013 RM'000
Cash and balances with banks and other financial institutions	**5,024,775**	3,249,877
Money at call and interbank placements with remaining maturity not exceeding one month	**12,839,190**	14,430,163
	17,863,965	17,680,040

6. Deposits and placements with banks and other financial institutions

	2014 RM'000	2013 RM'000
Licensed banks	**-**	50,025

7. Financial investments portfolio

	Note	2014 RM'000	2013 RM'000
Financial investments available-for-sale	(i)	**8,013,073**	8,443,090
Financial investments at fair value through profit or loss	(ii)	**1,234,423**	492,119
		9,247,496	8,935,209

(i) Financial investments available-for-sale

	2014 RM'000	2013 RM'000
At fair value		
Money market instruments:		
Malaysian Government Investment Issues	**4,211,737**	4,898,485
Negotiable instruments of deposits	**2,100,000**	1,666,487
Bankers' acceptances and Islamic accepted bills	**-**	26,240
Khazanah bonds	**65,027**	62,930
	6,376,764	6,654,142
Unquoted securities:		
Islamic private debt securities in Malaysia	**1,532,753**	1,693,482
Foreign Islamic debt securities	**27,871**	25,763
Malaysian Government bond	**75,685**	69,703
	1,636,309	1,788,948
Total financial investments available-for-sale	**8,013,073**	8,443,090

7. Financial investments portfolio (cont'd.)

(i) Financial investments available-for-sale (cont'd.)

The maturity structure of money market instruments is as follows:

	2014 RM'000	2013 RM'000
Maturing within one year	**2,122,499**	1,692,727
One year to three years	**1,757,528**	1,981,003
Three years to five years	**304,291**	312,042
After five years	**2,192,446**	2,668,370
	6,376,764	6,654,142

(ii) Financial investments at fair value through profit or loss

	2014 RM'000	2013 RM'000
At fair value		
Money market instruments:		
Malaysian Government Investment Issues	**-**	145,679
Bank Negara Malaysia Monetary Notes	**1,205,399**	323,452
	1,205,399	469,131
Unquoted securities:		
Foreign Islamic debt securities	**29,024**	22,988
Total financial investments at fair value through profit or loss	**1,234,423**	492,119

The maturity structure of money market instruments is as follows:

	2014 RM'000	2013 RM'000
Maturing within one year	**1,205,399**	424,303
One year to three years	**-**	40,584
After five years	**-**	4,244
	1,205,399	469,131

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8. Financing and advances

(i) By type and Shariah concepts

2014	Bai'^ RM'000	Murabahah RM'000	Musharakah RM'000	Al-Ijarah Thumma Al-Bai (AITAB) RM'000	Ijarah RM'000	Istisna' RM'000	Others RM'000	Total financing and advances RM'000
Cashline	-	2,423,156	-	-	-	-	-	2,423,156
Term financing								
- House financing	22,413,253	44,643,817	2,823,380	-	-	-	-	69,880,450
- Syndicated financing	-	-	-	-	-	-	-	-
- Hire purchase receivables	-	-	-	32,340,140	-	-	-	32,340,140
- Other term financing	42,952,614	39,773,412	1,806,647	-	161,882	174,983	528	84,870,066
Bills receivable	-	-	-	-	-	-	-	-
Trust receipts	-	193,885	-	-	-	-	-	193,885
Claims on customers under acceptance credits	-	4,080,986	-	-	-	-	-	4,080,986
Staff financing	966,347	605,961	9,220	130,348	-	-	37,195	1,749,071
Credit card receivables	-	-	-	-	-	-	475,704	475,704
Revolving credit	-	8,604,398	-	-	-	-	-	8,604,398
	66,332,214	100,325,615	4,639,247	32,470,488	161,882	174,983	513,427	204,617,856
Unearned income								(96,078,268)
Gross financing and advances^^								108,539,588
Allowances for impaired financing and advances:								
- individual								(212,946)
- collective								(597,403)
Net financing and advances								107,729,239

^ Bai' comprises of Bai-Bithaman Ajil, Bai Al-Inah and Bai-Al-Dayn

^^ Included in financing and advances are the underlying assets under the Restricted Profit Sharing Investment Account ("RPSIA"), an arrangement between the Bank and its parent, where the risks and rewards of the RPSIA are accounted by the parent, including allowances for impairment arising thereon, if any and the profit is shared based on pre-agreed ratios.

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8. Financing and advances (cont'd.)

(i) By type and Shariah concepts (cont'd.)

2013	Bai'^ RM'000	Murabahah RM'000	Musharakah RM'000	Al-Ijarah Thumma Al-Bai (AITAB) RM'000	Ijarah RM'000	Istisna' RM'000	Others RM'000	Total financing and advances RM'000
Cashline	-	2,762,317	-	-	-	630	-	2,762,947
Term financing								
- House financing	22,881,526	18,521,856	2,726,672	-	-	-	-	44,130,054
- Syndicated financing	-	-	24,071	-	-	-	-	24,071
- Hire purchase receivables	-	-	-	26,432,037	-	-	-	26,432,037
- Other term financing	45,398,966	24,733,658	1,953,048	-	214,442	180,206	932	72,481,252
Bills receivable	-	3,241	-	-	-	-	474	3,715
Trust receipts	-	198,607	-	-	-	-	-	198,607
Claims on customers under acceptance credits	-	3,978,452	-	-	-	-	-	3,978,452
Staff financing	1,070,419	188,580	9,646	100,524	-	-	34,767	1,403,936
Credit card receivables	-	-	-	-	-	-	424,425	424,425
Revolving credit	-	6,095,659	-	-	-	-	-	6,095,659
	69,350,911	56,482,370	4,713,437	26,532,561	214,442	180,836	460,598	157,935,155
Unearned income								(71,055,879)
Gross financing and advances^^								86,879,276
Allowances for impaired financing and advances:								
- individual								(162,046)
- collective								(581,496)
Net financing and advances								86,135,734

^ Bai' comprises of Bai-Bithaman Ajil, Bai Al-Inah and Bai-Al-Dayn

^^ Included in financing and advances are the underlying assets under the Restricted Profit Sharing Investment Account ("RPSIA"), an arrangement between the Bank and its parent, where the risks and rewards of the RPSIA are accounted by the parent, including allowances for impairment arising thereon, if any and the profit is shared based on pre-agreed ratios.

8. Financing and advances (cont'd.)

(ii) Financing and advances analysed by type of customers are as follows:

	2014 RM'000	2013 RM'000
Domestic non-banking institutions	**4,009,723**	2,546,840
Domestic business enterprises		
- Small and medium enterprises	**11,249,588**	8,723,084
- Others	**16,403,825**	13,172,914
Government and statutory bodies	**7,209,490**	6,288,125
Individuals	**68,760,815**	55,492,469
Other domestic entities	**22,678**	18,006
Foreign entities in Malaysia	**883,469**	637,838
Gross financing and advances	**108,539,588**	86,879,276

(iii) Financing and advances analysed by profit rate sensitivity are as follows:

	2014 RM'000	2013 RM'000
Fixed rate		
- House financing	**1,579,702**	2,278,641
- Hire purchase receivables	**27,780,000**	22,595,645
- Other financing	**23,659,411**	18,304,819
Floating rate		
- House financing	**18,557,590**	12,252,243
- Other financing	**36,962,885**	31,447,928
Gross financing and advances	**108,539,588**	86,879,276

(iv) Financing and advances analysed by their economic purposes are as follows:

	2014 RM'000	2013 RM'000
Purchase of securities	**17,017,134**	16,325,909
Purchase of transport vehicles	**27,783,945**	22,635,114
Purchase of landed properties:		
- Residential	**19,553,193**	14,072,688
- Non-residential	**6,963,083**	4,471,266
Purchase of fixed assets (excluding landed properties)	**16,774**	8,813
Personal use	**1,845,384**	1,419,655
Consumer durables	**718**	723
Construction	**3,122,738**	2,660,675
Working capital	**31,761,002**	24,859,957
Credit/charge card	**475,617**	424,476
Gross financing and advances	**108,539,588**	86,879,276

8. Financing and advances (cont'd.)

(v) The maturity structure of financing and advances is as follows:

	2014 RM'000	2013 RM'000
Maturing within one year	**17,375,050**	12,436,008
One year to three years	**9,370,334**	6,020,825
Three years to five years	**7,996,742**	10,448,909
After five years	**73,797,462**	57,973,534
Gross financing and advances	**108,539,588**	86,879,276

(vi) Movements in the impaired financing and advances are as follows:

	2014 RM'000	2013 RM'000
At beginning of the year	**520,793**	519,979
Impaired during the year	**728,670**	538,213
Reclassified as non-impaired during the year	**(285,316)**	(218,605)
Recovered during the year	**(165,310)**	(245,481)
Amount written off	**(124,020)**	(73,313)
At end of the year	**674,817**	520,793
Less:		
- Individual allowance	**(212,946)**	(162,046)
Net impaired financing and advances	**461,871**	358,747
Gross financing and advances (excluding RPSIA financing)	**98,991,402**	78,550,433
Less:		
- Individual allowance	**(212,946)**	(162,046)
Net financing and advances	**98,778,456**	78,388,387
Net impaired financing and advances as a percentage of net financing and advances	**0.47%**	0.46%

8. Financing and advances (cont'd.)

(vii) Impaired financing and advances analysed by their economic purposes are as follows:

	2014 RM'000	2013 RM'000
Purchase of securities	**21,956**	8,575
Purchase of transport vehicles	**94,031**	67,597
Purchase of landed properties:		
- Residential	**82,395**	86,109
- Non-residential	**40,649**	22,363
Personal use	**12,139**	9,318
Consumer durables	**8**	3
Construction	**128,655**	31,059
Working capital	**291,892**	292,269
Credit/charge card	**3,092**	3,500
	674,817	520,793

(viii) Movements in the allowances for impaired financing and advances are as follows:

	2014 RM'000	2013 RM'000
Individual Allowance		
At beginning of the year	**162,046**	94,176
Allowance made (Note 24)	**123,303**	87,363
Amount written back in respect of recoveries (Note 24)	**(11,726)**	(19,419)
Transfer to collective allowance	**(2,356)**	(74)
Amount written off	**(58,321)**	-
At end of the year	**212,946**	162,046
Collective Allowance		
At beginning of the year	**581,496**	595,517
Net allowance made* (Note 24)	**79,251**	59,218
Transfer from individual allowance	**2,356**	74
Amount written off	**(65,700)**	(73,313)
At end of the year	**597,403**	581,496

8. Financing and advances (cont'd.)

(viii) Movements in the allowances for impaired financing and advances are as follows (cont'd.):

	2014	2013
Collective Allowance (cont'd.)		
Collective assessment allowance (inclusive of regulatory reserve) as a percentage of gross financing and advances (excluding RPSIA financing) less individual assessment allowance	**0.88%**	0.74%

* As at 31 December 2014, the gross exposure of the assets under RPSIA is RM9,548.2 million (31 December 2013: RM8,328.8 million) and the collective allowance relating to this RPSIA amounting to RM43.2 million (31 December 2013: RM27.8 million) is accounted for by the parent. There was no individual allowance made on these RPSIA financing by the Bank.

9. Derivative financial instruments

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of derivative's underlying asset, reference rate or index and is the basis upon which change in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the period/year end and are indicative of neither the market risks nor the credit risk.

	2014			2013		
	Contract/ Notional amount	Fair value		Contract/ Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Trading derivatives						
Foreign exchange related contracts:						
Currency forward						
- Less than one year	**2,194,500**	**97,395**	**(1,225)**	1,619,825	55,054	(1,565)
Currency swap						
- Less than one year	**3,894,756**	**10,624**	**(103,724)**	3,025,375	2,900	(59,007)
Currency spot						
- Less than one year	**46,097**	**25**	**(44)**	28,757	33	(52)
Cross currency profit rate swaps						
- One year to three years	**325,025**	**28,262**	**(28,262)**	314,425	19,421	(19,421)
Profit rate related contracts:						
Profit rate options						
- One year to three years	**400,000**	**-**	**(43,025)**	-	-	-
- More than three years	**430,000**	**479**	**(42,484)**	575,000	-	(89,348)
Profit rate swaps						
- More than three years	**2,616,597**	**22,711**	**(18,708)**	-	-	-
	9,906,975	**159,496**	**(237,472)**	5,563,382	77,408	(169,393)
Hedging derivatives						
Foreign exchange related contracts:						
Cross currency profit rate swaps						
- One year to three years	**-**	**-**	**-**	249,530	36,115	(35,588)
- More than three years	**1,794,612**	**1,622**	**(29,532)**	383,100	-	(26,958)
Profit rate related contracts:						
Profit rate swaps						
- Less than one year	**-**	**-**	**-**	850,000	-	(1,798)
- One year to three years	**1,718,000**	**7,697**	**(6,724)**	718,000	1,729	(2,562)
- More than three years	**524,325**	**720**	**(136)**	1,902,963	18,889	(11,653)
	4,036,937	**10,039**	**(36,392)**	4,103,593	56,733	(78,559)
Total derivative assets/(liabilities)	**13,943,912**	**169,535**	**(273,864)**	9,666,975	134,141	(247,952)

10. Other assets

	2014 RM'000	2013 RM'000
Amount due from holding company	**7,158,796**	8,412,776
Handling fees	**179,232**	149,932
Prepayments and deposits	**229,897**	124,963
Other debtors	**3,544**	82,474
	7,571,469	8,770,145

11. Statutory deposit with Bank Negara Malaysia

The non-interest bearing statutory deposit maintained with Bank Negara Malaysia are in compliance with Section 26(2)(c) and Section 26(3) of the Central Bank of Malaysia Act, 2009, the amounts of which are determined as set percentages of total eligible liabilities.

12. Deposits from customers

	2014 RM'000	2013 RM'000
Savings deposits		
Wadiah	**9,977,407**	8,878,413
Mudharabah	**888,055**	741,950
Demand deposits		
Wadiah	**8,230,155**	8,064,681
Mudharabah	**12,772,222**	9,213,225
Term deposits		
Murabahah	**53,655,446**	40,593,458
General investment deposits		
Mudharabah	**13,257,051**	14,877,283
Negotiable instruments of deposits		
Mudharabah	**151,380**	143,345
Hybrid *	**763,556**	505,258
	99,695,272	83,017,613

* Structured deposits represent Ringgit Malaysia time deposits with embedded foreign currency exchange option, commodity-linked time deposits and profit rate options.

12. Deposits from customers (cont'd.)

(i) The maturity structure of term deposits (excluding Hybrid) are as follows:

	2014 RM'000	2013 RM'000
Due within six months	**59,926,041**	43,619,852
Six months to one year	**6,932,228**	11,778,562
One year to three years	**187,327**	199,471
Three years to five years	**18,281**	16,201
	67,063,877	55,614,086

(ii) The deposits are sourced from the following customers:

	2014 RM'000	2013 RM'000
Business enterprises	**40,243,289**	35,478,959
Individuals	**24,682,853**	19,615,685
Government and statutory bodies	**15,231,857**	11,880,189
Others	**19,537,273**	16,042,780
	99,695,272	83,017,613

13. Deposits and placements of banks and other financial institutions

	2014 RM'000	2013 RM'000
Mudharabah fund		
Licensed banks*	**23,143,233**	23,511,701
Licensed islamic banks	**1,566,784**	1,351,903
Licensed investment banks	**819,256**	526,048
Other financial institutions	**287,371**	399,303
	25,816,644	25,788,955
Non-Mudharabah fund		
Licensed banks	**-**	3,640
Licensed islamic banks	**368,350**	551,256
Other financial institutions	**10,359,795**	7,027,450
	10,728,145	7,582,346
	36,544,789	33,371,301

13. Deposits and placements of banks and other financial institutions (cont'd.)

* Included in the Mudharabah deposits and placements of licensed banks is the Restricted Profit Sharing Investment Account ("RPSIA") placed by the parent amounting to RM9,521.9 million (31 December 2013: RM8,336.3 million). These deposits are used to fund certain specific financing. The RPSIA is a contract based on the Mudharabah principle between two parties to finance a financing where the depositor as an investor solely provides capital and the business venture is managed solely by the bank as an entrepreneur. The profit of the business venture is shared between both parties based on pre-agreed ratios. Losses shall be borne by the depositors.

14. Other liabilities

	Note	2014 RM'000	2013 RM'000
Profit equalisation reserve	15	**-**	11,820
Sundry creditors		**27,553**	41,459
Deposit on trade financing		**22,682**	22,585
Provisions and accruals		**20,064**	17,698
Others		**9,367**	4,353
		79,666	97,915

15. Profit Equalisation Reserve ("PER")

	2014 RM'000	2013 RM'000
At beginning of the year	**11,820**	54,695
Distribution to Investment Account Holder	**(11,820)**	(42,875)
At end of the year	**-**	11,820

Under the BNM PER Guideline, the PER of the Bank is to be classified as a separate reserve in equity.

16. Provision for taxation and zakat

	2014 RM'000	2013 RM'000
Taxation	**18,010**	170,659
Zakat	**20,259**	21,820
	38,269	192,479

17. Deferred tax assets

	2014 RM'000	2013 RM'000
At beginning of the year	**267,403**	199,000
Recognised in the income statement (Note 29)	**(223,281)**	15,352
Recognised in other comprehensive income	**(9,420)**	53,051
At end of the year	**34,702**	267,403

Deferred tax assets of the Bank:

	Allowances for losses on financing and advances RM'000	Unrealised holding reserve RM'000	Other temporary difference RM'000	Total RM'000
At 1 January 2014	**201,664**	**62,952**	**2,787**	**267,403**
Recognised in the income statement (Note 29)	**(201,664)**	**(22,288)**	**671**	**(223,281)**
Recognised in other comprehensive statement	**-**	**(9,420)**	**-**	**(9,420)**
At 31 December 2014	**-**	**31,244**	**3,458**	**34,702**
At 1 January 2013	186,859	9,901	2,240	199,000
Recognised in the income statement (Note 29)	14,805	-	547	15,352
Recognised in other comprehensive statement	-	53,051	-	53,051
At 31 December 2013	201,664	62,952	2,787	267,403

18. Subordinated sukuk

	Note	2014 RM'000	2013 RM'000
RM1,000 million Tier 2 Islamic Subordinated Sukuk due in 2021	(i)	**1,010,841**	1,010,782
RM1,500 million Tier 2 Islamic Subordinated Sukuk due in 2024	(ii)	**1,516,788**	-
		2,527,629	1,010,782

18. Subordinated sukuk (cont'd.)

(i) On 31 March 2011, the Bank issued RM1.0 billion nominal value Islamic Subordinated Sukuk ("the Sukuk") under the Shariah principle of Musyarakah. The Sukuk carries a tenure of 10 years from the issue date on 10 non-callable 5 basis, with a profit rate of 4.22% per annum payable semi-annually in arrears in March and September each year, and are due in March 2021. Under the 10 non-callable 5 basis feature, the Bank has the option to redeem the Sukuk on any semi-annual distribution date on or after the fifth (5th) anniversary from the issue date. Should the Bank decide not to exercise its option to redeem the Sukuk, the Sukuk shall continue to be outstanding until the final maturity date.

The Sukuk is unsecured and it is subordinated in rights and priority of payment, to all deposit liabilities and other liabilities of the Bank except liabilities of the Bank which by their terms rank pari-passu in right and priority of payment with the Sukuk.

(ii) On 7 April 2014, the Bank issued RM1.5 billion nominal value Islamic Subordinated Sukuk ("the Sukuk) under the Shariah principle of Murabahah (via Tawaruq arrangement). The Sukuk carries a tenure of 10 years from the issue date on 10 non-callable 5 basis, with a profit rate of 4.75% per annum payable semi-annually in arrears in April and October each year and are due in April 2024. Under the 10-non-callable 5 basis feature, the Bank has the option to redeem the Sukuk on any semi-annual distribution date on or after the fifth (5th) anniversary form the issue date. Should the Bank decide not to exercise its option to redeem the Sukuk, the Sukuk shall continue to be outstanding until the final maturity date.

The Sukuk is unsecured and it is subordinated in rights and priority of payment, to all deposit liabilities and other liabilities of the Bank except liabilities of the Bank which by their terms rank pari-passu in right and priority of payment with the Sukuk.

19. Recourse obligation on financing sold to Cagamas

	2014 RM'000	2013 RM'000
At beginning of the year	**620,976**	905,181
Repayment forwarded	**(620,976)**	(284,205)
At end of the year	**-**	620,976

This represents hire purchase financing sold directly to Cagamas Berhad with recourse. Under the agreement, the Bank undertakes to administer the financing on behalf of Cagamas Berhad and to buy back any financing which are regarded as defective based on pre-determined and agreed-upon prudential criteria.

20. Share capital

	Number of ordinary shares of RM1 each		Amount	
	2014	**2013**	**2014**	**2013**
	'000	**'000**	**RM'000**	**RM'000**
Authorised:				
At beginning and end of year	**500,000**	500,000	**500,000**	500,000
Issued and fully paid:				
At beginning of year	**218,988**	132,720	**218,988**	132,720
Issued during the year	**27,374**	86,268	**27,374**	86,268
At end of year	**246,362**	218,988	**246,362**	218,988

During the current financial year, the Bank increased its issued and paid-up share capital from RM218,988,000 to RM246,361,500 via the issuance of 27,373,500 new ordinary shares of RM1.00 each at a premium of RM13.64 per shares to Maybank on the basis of one new share of every eight existing ordinary shares held.

21. Reserves

	Note	2014 RM'000	2013 RM'000
Non-distributable:			
Share premium		**4,099,343**	3,725,969
Equity contribution from the holding company		**1,697**	1,697
Statutory reserve	(a)	**409,672**	409,672
Unrealised holding reserves		**(99,618)**	(127,879)
Profit equalisation reserve	(b)	**34,456**	34,456
Regulatory reserve	(c)	**274,500**	-
		4,720,050	4,043,915
Distributable:			
Retained profits	(d)	**2,262,558**	2,172,652
Total reserves		**6,982,608**	6,216,567

21. Reserves (cont'd.)

(a) Statutory reserves

The statutory reserve is maintained in compliance with the requirements of Bank Negara Malaysia in which the Bank operates and is not distributable as cash dividends.

(b) Profit equalisation reserve

The PER of the Bank is classified as a separate reserve in equity as per BNM Revised Guidelines on Profit Equalisation Reserve issued in May 2011.

(c) Regulatory reserve

Regulatory reserve is maintained in addition to the collective impairment allowance that has been assessed and recognised in accordance with MFRS, and it will be set aside from the retained profits to a separate reserve within equity as an additional credit risk absorbent. Banking institutions are required to comply with this new regulatory requirement by 31 December 2015.

Upon adoption of this new regulatory requirement, there will be no impact to the income statements of the Bank and any resulting impact will be recorded in the statement of changes in equity of the Bank.

(d) Retained profits

The retained profits of the Bank as at 31 December 2014 and 31 December 2013 are distributable profits and may be distributed as dividends under the single-tier system.

22. Income derived from investment of depositors' funds

	2014 RM'000	**2013 RM'000**
Income from investment of:		
(i) General investment deposits	**3,705,612**	2,981,189
(ii) Other deposits	**1,815,512**	1,480,463
	5,521,124	4,461,652

22. Income derived from investment of depositors' funds (cont'd.)

(i) Income derived from investment of general investment deposits

	2014 RM'000	2013 RM'000
Finance income and hibah		
Financing and advances	**3,027,946**	2,285,841
Securities:		
Financial investments available-for-sale	**146,273**	148,975
Financial investments at fair value through profit or loss	**4,774**	3,695
Money at call and deposits with financial institutions	**248,975**	220,047
	3,427,968	2,658,558
Accretion of discount less amortisation of premium	**30,371**	36,059
Total finance income and hibah	**3,458,339**	2,694,617
Other operating income		
Fee income:		
- Processing fees	**938**	950
- Commissions	**86,578**	81,959
- Service charges	**68,089**	98,678
Gains on sale of financial investments available-for-sale	**1,616**	13,522
Gains on sale of financial investments at fair value through profit or loss	**4,544**	40,458
Unrealised gains/(losses) on revaluation of:		
- Derivatives	**11,105**	(11,373)
- Financial investments at fair value through profit or loss	**2,997**	(6,461)
Gains/(losses) on foreign exchange:		
- Realised	**(8,063)**	38,139
- Unrealised	**42,733**	28,052
Net dividend on derivatives	**36,736**	2,648
Total other operating income	**247,273**	286,572
Total	**3,705,612**	2,981,189

Included in finance income are income on impaired assets amounting to RM13.9 million (31.12.2013: RM9.4 million).

22. Income derived from investment of depositors' funds (cont'd.)

(ii) Income derived from investment of other deposits

	2014 RM'000	2013 RM'000
Finance income and hibah		
Financing and advances	**1,483,498**	1,135,153
Securities:		
Financial investments available-for-sale	**71,664**	73,981
Financial investments at fair value through profit or loss	**2,339**	1,835
Money at call and deposits with financial institutions	**121,982**	109,276
	1,679,483	1,320,245
Accretion of discount less amortisation of premium	**14,880**	17,907
Total finance income and hibah	**1,694,363**	1,338,152
Other operating income		
Fee income:		
- Processing fees	**460**	472
- Commissions	**42,418**	40,701
- Service charges	**33,359**	49,004
Gains on sale of financial investments available-for-sale	**792**	6,715
Gains on sale of financial investments at fair value through profit or loss	**2,226**	20,091
Unrealised gains/(losses) on revaluation of:		
- Derivatives	**5,441**	(5,648)
- Financial investments at fair value through profit or loss	**1,468**	(3,209)
Gains/(losses) on foreign exchange:		
- Realised	**(3,950)**	18,940
- Unrealised	**20,937**	13,930
Net dividend on derivatives	**17,998**	1,315
Total other operating income	**121,149**	142,311
Total	**1,815,512**	1,480,463

Included in finance income are income on impaired assets amounting to RM6.8 million (31.12.2013: RM4.7 million).

23. Income derived from investment of shareholder's funds

	2014 RM'000	2013 RM'000
Finance income and hibah		
Financing and advances	**196,653**	162,564
Securities:		
Financial investments available-for-sale	**9,500**	10,595
Financial investments at fair value through profit or loss	**310**	263
Money at call and deposits with financial institutions	**16,170**	15,649
	222,633	189,071
Accretion of discount less amortisation of premium	**1,972**	2,564
Total finance income and hibah	**224,605**	191,635
Other operating income		
Fee income		
- Processing fees	**61**	68
- Commissions	**5,623**	5,829
- Service charges	**4,422**	7,018
Gains on sale of financial investments available-for-sale	**105**	962
Gains on sale of financial investments at fair value through profit or loss	**295**	2,877
Unrealised gains/(losses) on revaluation of:		
- Derivatives	**721**	(809)
- Financial investments at fair value through profit or loss	**195**	(460)
Gains/(losses) on foreign exchange:		
- Realised	**(524)**	2,712
- Unrealised	**2,775**	1,995
Net dividend on derivatives	**2,386**	188
Total other operating income	**16,059**	20,380
Total	**240,664**	212,015

Included in finance income are income on impaired assets amounting to RM0.9 million (31.12.2013: RM0.7 million).

24. Allowances for losses on financing and advances

	2014 RM'000	2013 RM'000
Allowances for impaired financing and advances:		
Individual allowance		
- Allowance made (Note 8 (viii))	**123,303**	87,363
- Amount written back (Note 8 (viii))	**(11,726)**	(19,419)
Collective allowance made (Note 8 (viii))	**79,251**	59,218
Bad financing		
- Written off	**13,358**	11,397
- Recovered	**(121,564)**	(137,543)
	82,622	1,016

25. Income attributable to depositors

	2014 RM'000	2013 RM'000
Deposits from customers		
- Mudharabah fund	**851,800**	616,449
- Non-mudharabah fund	**1,471,949**	1,127,850
Deposits and placements of banks and other financial institutions		
- Mudharabah fund	**726,905**	587,803
- Non-mudharabah fund	**16,378**	30,924
	3,067,032	2,363,026

26. Overhead expenses

	2014 RM'000	2013 RM'000
Personnel expenses		
- Salaries and wages	**17,054**	14,194
- Allowances and bonuses	**10,682**	9,733
- Social security cost	**98**	83
- Pension cost - defined contribution plan	**3,956**	3,406
- Share options granted under ESS	**1,970**	1,584
- Other staff related expenses	**6,365**	3,929
	40,125	32,929
Establishment costs		
- Rental of premises	**1,715**	1,143
- Repairs, servicing and maintenance	**130**	71
- Information technology expenses	**2,711**	945
	4,556	2,159
Marketing costs		
- Advertisement and publicity	**10,852**	14,069
- Others	**4,971**	1,170
	15,823	15,239
Administration and general expenses		
- Fees and brokerage	**7,417**	9,316
- Administrative expenses	**4,193**	3,441
- General expenses	**14,132**	10,734
- Auditors' remuneration		
- Audit	**423**	388
- Regulatory-related services	**242**	208
- Other services	**342**	18
- Directors' fees and other remunerations (Note 27)	**496**	488
- Shared service costs paid/payable to Maybank	**871,530**	799,112
	898,775	823,705
Total	**959,279**	874,032

27. Chief executive officer, directors and Shariah committee members' remuneration

	2014 RM'000	2013 RM'000
Chief executive officer:		
Salary and other remuneration, including meeting allowance	**1,565**	1,311
ESS costs	**806**	765
Estimated monetary value of benefit-in-kind	**35**	31
Pension cost - defined contribution plan	**543**	205
	2,949	2,312
Non-executive directors:		
Fees	**448**	441
Other remunerations	**48**	47
	496	488
Shariah committee members	**746**	586
Total	**4,191**	3,386
Total (excluding benefit-in-kind)	**4,156**	3,355

Number of directors of the Bank whose remuneration falls into the following band:

	2014	2013
Non-executive directors:		
Below RM50,000	**1**	1
RM50,001 - 100,000	**5**	5

28. Finance cost

	2014 RM'000	2013 RM'000
Islamic Subordinated Sukuk	**94,770**	42,200

29. Taxation

	2014 RM'000	2013 RM'000
Current tax:		
Malaysian income tax	**394,900**	337,941
Over provision in prior years	**(201,664)**	-
	193,236	337,941
Deferred tax (Note 17):		
Relating to origination and reversal of temporary differences	**(671)**	(15,352)
Reversal of deferred tax no longer required	**223,952**	-
	223,281	(15,352)
	416,517	322,589

Domestic current income tax is calculated at the statutory tax rate of 25% of the estimated assessable profit for the period.

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Bank is as follows:

	2014 RM'000	2013 RM'000
Profit before taxation	**1,558,085**	1,393,393
Taxation at Malaysian statutory tax rate of 25%	**389,521**	348,348
Income not subject to tax	**-**	(24,515)
Expenses not deductible for tax purposes	**8,621**	1,976
Over provision of deferred tax in prior years	**223,952**	-
Over provision of tax expense in prior years	**(201,664)**	-
Effect of zakat deduction	**(3,913)**	(3,220)
Tax expense for the year	**416,517**	322,589

30. Earnings per share ("EPS")

The basic and diluted EPS of the Bank are calculated by dividing the net profit for the year by the weighted average number of ordinary shares in issue during the financial year.

	2014	2013
Profit for the year attributable to equity holder of the Bank (RM'000)	**1,122,378**	1,049,337
Weighted average number of ordinary shares in issue ('000)	**240,062**	143,610
Basic/diluted EPS (sen)	**467.5**	730.7

31. Dividends

	2014 RM'000	2013 RM'000
Interim tax exempt (single-tier) dividend of RM1.45, on 246,361,500 ordinary shares in respect of the financial year ended 31 December 2014	**357,224**	-
Final tax exempt (single-tier) dividend of RM1.83, on 218,988,000 ordinary shares in respect of the financial period ended 31 December 2013	**400,748**	-
Interim tax exempt (single-tier) dividend of RM0.94, on 132,720,000 ordinary shares in respect of the financial year ended 31 December 2013	**-**	124,757
	757,972	124,757

At the forthcoming Annual General Meeting, a final tax-exempt (single tier) dividend in respect of the financial year ended 31 December 2014 of RM0.69 per share on 246,361,500 ordinary shares, amounting to a dividend payable of RM169,989,435 will be proposed for the shareholder's approval.

The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholder, will be accounted for in equity as an appropriation of retained profits in the next financial year ending 31 December 2015.

32. Significant related party transactions and balances

(a) The Bank's significant transactions and balances with related parties are as follows:

	2014 RM'000	2013 RM'000
Holding company		
Income		
Profit income on deposits and placement with banks and other financial institutions	**1,440**	771
Expenditure		
Income attributable on deposits and placements	**551,753**	408,433
Shared service cost paid/payable to Maybank	**871,530**	799,112
Other expenses	**2,129**	2,417
	1,425,412	1,209,962
Related companies		
Income		
Profit income on deposits and placement with banks and other financial institutions	**1,050**	-
Expenditure		
Income attributable on deposits and placements	**19,971**	1,480
Other expenses	**35**	35
	20,006	1,515

(b) Included in the statement of financial position of the Bank are amounts due to and from holding company and related companies represented by the following:

	2014 RM'000	2013 RM'000
Holding company		
Amount due from:		
Current accounts and deposits	**231,555**	321,723
Derivative assets	**22,143**	10,525
Others	**7,158,796**	8,412,776
	7,412,494	8,745,024
Holding company		
Amount due to:		
Current accounts and deposits	**12,640,468**	20,295,874
Negotiable instruments of deposits		
- Remaining maturity less than one year	**1,905,000**	700,000
- Remaining maturity more than one year	**9,254,205**	2,019,150
Derivative liabilities	**179,722**	147,207
	23,979,395	23,162,231

32. Significant related party transactions and balances (cont'd.)

(b) Included in the statement of financial position of the Bank are amounts due to and from holding company and related companies represented by the following (cont'd.):

	2014 RM'000	2013 RM'000
Related companies		
Amount due from:		
Current accounts and deposits	**30,446**	21
Amount due to:		
Current accounts and deposits	**2,102**	8,702
General investment deposits	**89,982**	58,638
Fixed return investment deposits	**539,823**	124,796
	631,907	192,136

The above transactions have been entered into in the normal course of business and have been established under terms and conditions that are no less favourable than those arranged with independent parties.

(c) Key management personnel compensation

The remuneration of directors and other members of key management during the year are as disclosed in Note 27. The movement in share options of key management personnel is as follows:

	2014 '000	2013 '000
At beginning of year	**362**	162
Vested and exercisable	**250**	200
At end of year	**612**	362

The share options were granted on the same terms and conditions as those offered to other employees of Maybank Group.

32. Significant related party transactions and balances (cont'd.)

(d) Government-related entities

Permodalan Nasional Berhad ("PNB"), a government linked entity is a shareholder of Maybank with significant influence on Maybank, from its direct shareholding of 5.37% (31.12.2013: 5.70%) and indirect shareholding of 38.46% (31.12.2013: 38.22%) via Amanah Raya Trustee Berhad (Skim Amanah Saham Bumiputera) as at 31 December 2013. PNB and entities directly controlled by PNB are collectively referred to as government-related entities to the Bank.

All the transactions entered into by the Bank with the government-related entities are conducted in the ordinary course of the Bank's business on terms comparable to those with other entities that are not government-related. The Bank has established credit policies, pricing strategy and approval process for financing and advances, which are independent of whether the counterparties are government-related entities or not.

(i) Individually significant transaction with PNB because of size of transaction

	2014 RM'000	2013 RM'000
Transactions during the year:		
Financing income	**82,260**	45,646
Balances as at:		
Financing and advances	**3,150,000**	2,150,000

(ii) Collectively, but not individually, significant transactions

For the financial year ended 31 December 2014, there was no collectively significant transactions with other government-related entities (31 December 2013: 0.04%).

32. Significant related party transactions and balances (cont'd.)

(e) Credit exposure arising from credit transactions with connected parties

	2014	2013
Outstanding credit exposure with connected parties (RM'000)	**3,023,841**	1,274,610
Percentage of outstanding credit exposure to connected parties as a proportion of total credit exposure	**1.9%**	1.0%
Percentage of outstanding credit exposure to connected parties which are non-performing or in default	**-**	-

The credit exposure above are derived based on paragraph 9.1 of the Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected

Based on these guidelines, a connected party refers to the following:

(i) Directors of the Bank and their close relatives;

(ii) Executive officer, being a member of management having authority and responsibility for planning, directing and/or controlling the activities of the Bank, and his close relatives;

(iii) Officers who are responsible for or have the authority to appraise and/or approve credit transactions or review the status of existing credit transactions, either as a member of a committee or individually, and their close relatives;

(iv) Firms, partnerships, companies or any legal entities which control, or are controlled by any person listed in (i) to (iii) above, or in which they have an interest, as a director, partner, executive officer, agent or guarantor, and their subsidiaries or entities controlled by them;

(v) Any person for whom the persons listed in (i) to (iii) above is a guarantor; and

(vi) Subsidiary of or an entity controlled by the Bank and its connected parties.

Credit transactions and exposures to connected parties as disclosed above includes the extension of credit facilities and/or off-balance sheet credit exposures such as guarantees, trade-related facilities and financing commitments.

33. Commitments and contingencies

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions.

The risk-weighted exposures of the Bank as at 31 December are as follows:

	2014			2013		
	Full commitment RM'000	Credit equivalent amount* RM'000	Risk weighted amount* RM'000	Full commitment RM'000	Credit equivalent amount* RM'000	Risk weighted amount* RM'000
Credit-related						
Direct credit substitutes	**728,537**	**703,467**	**373,128**	633,689	633,689	396,118
Certain transaction-related contingent items	**1,204,607**	**582,491**	**494,447**	1,165,665	591,715	480,062
Short-term self-liquidating trade-related contingencies	**186,627**	**36,646**	**22,058**	276,377	137,786	23,044
Irrevocable commitments to extend credit:						
- maturity within one year	**13,503,588**	**2,620,597**	**1,493,669**	16,049,084	1,685,439	986,277
- maturity more than one year	**8,084,845**	**4,707,946**	**1,605,452**	6,170,815	2,874,563	1,096,736
Miscellaneous commitments and contingencies	**55,158**	**-**	**-**	22,064	-	-
Derivative financial instruments						
Foreign exchange related contracts:						
- less than one year	**6,135,353**	**212,154**	**17,156**	4,673,957	11,898	7,298
- one year to less than five years	**2,119,637**	**129,985**	**27,101**	947,055	58,846	28,317
Profit rate related contracts:						
- less than one year	**-**	**-**	**-**	850,000	1,000	200
- one year to less than five years	**3,747,325**	**238,208**	**91,437**	3,120,963	7,180	2,908
- more than five years	**1,941,597**	**189,556**	**105,977**	75,000	72,500	22,100
	37,707,274	**9,421,050**	**4,230,425**	33,984,669	6,074,617	3,043,059

* The credit equivalent amount and risk weighted amount are arrived at using the credit conversion factors and risk weights respectively as specified by Bank Negara Malaysia Guidelines.

34. Financial risk management

(a) Financial risk management overview

The Bank adopts the same principles and standards as Maybank ("the Group") in setting its risk management framework while ensuring the framework is consistent with Shariah requirements set out by the Islamic Financial Services Board ("IFSB") and Bank Negara Malaysia ("BNM"). At present, the Bank manages its credit and operational risks while the management of market and liquidity risk relating to Islamic banking is carried out by Risk Management at Maybank Group Level.

Risk Management is a critical pillar of the Group's operating model, complementing the other two pillars, which are customer sector and support and services sector. A dedicated Board-level Risk Management Committee provides risk oversight of all material risks across the Group.

At the management level, the Executive Risk Committee and the Asset and Liability Management Committee ensures all key risks are managed in line with their respective Terms of Reference.

The Bank's approach to risk management is premised on the following Seven Broad Principles of Risk Management:

(a) The risk management approach is premised on the three lines of defence concept – risk taking units, risk control units and internal audit.

(b) The risk taking units are responsible for the day-to-day management of risks inherent in their business activities while the risk control units are responsible for setting the risk management frameworks and developing tools and methodologies for the identification, measurement, monitoring, control and pricing of risks. Complementing this is Internal Audit which provides independent assurance of the effectiveness of the risk management approach.

(c) Risk Management provides risk oversight for the major risk categories including credit, market, liquidity and operational risk.

(d) Risk Management ensures that the core risk policies of the Bank are consistent, sets the risk tolerance level and facilitates the implementation of an integrated risk-adjusted measurement framework.

(e) Risk Management is functionally and organisationally independent of business sectors and other risk taking units within the Bank.

(f) The Board, through the Risk Management Committee, maintains overall responsibility for the risk oversight function within the Bank.

(g) Risk Management ensures the execution of various risk policies and related decisions empowered by the Board.

34. Financial risk management (cont'd.)

(b) Financial instrument by category

2014	Held-for-trading RM'000	Available-for-sale RM'000	Financing and receivables RM'000	Sub-total RM'000	Assets not in scope of MFRS 139 RM'000	Total RM'000
Assets						
Cash and short term funds	-	-	17,863,965	17,863,965	-	17,863,965
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-
Financial investments portfolio*	1,234,423	8,013,073	-	9,247,496	-	9,247,496
Financing and advances	-	-	107,729,239	107,729,239	-	107,729,239
Derivative assets	169,535	-	-	169,535	-	169,535
Other assets	-	-	7,162,340	7,162,340	409,129	7,571,469
Statutory deposits with Bank Negara Malaysia	-	-	3,778,000	3,778,000	-	3,778,000
Deferred tax assets	-	-	-	-	34,702	34,702
TOTAL ASSETS	1,403,958	8,013,073	136,533,544	145,950,575	443,831	146,394,406

2014	Held-for-trading RM'000	Other financial liabilities RM'000	Sub-total RM'000	Liabilities not in scope of MFRS 139 RM'000	Total RM'000
Liabilities					
Deposits from customers	-	99,695,272	99,695,272	-	99,695,272
Deposits and placements of banks and other financial institutions	-	36,544,789	36,544,789	-	36,544,789
Bills and acceptances payable	-	5,947	5,947	-	5,947
Derivative liabilities	273,864	-	273,864	-	273,864
Other liabilities	-	50,235	50,235	29,431	79,666
Provision for taxation and zakat	-	-	-	38,269	38,269
Subordinated sukuk	-	2,527,629	2,527,629	-	2,527,629
Recourse obligation on financing sold to Cagamas	-	-	-	-	-
TOTAL LIABILITIES	273,864	138,823,872	139,097,736	67,700	139,165,436

***** Financial investments portfolio consists of financial assets at fair value through profit or loss and financial investments available-for-sale.

34. Financial risk management (cont'd.)

(b) Financial instrument by category

2013	Held-for-trading RM'000	Available-for-sale RM'000	Financing and receivables RM'000	Sub-total RM'000	Assets not in scope of MFRS 139 RM'000	Total RM'000
Assets						
Cash and short term funds	-	-	17,680,040	17,680,040	-	17,680,040
Deposits and placements with banks and other financial institutions	-	-	50,025	50,025	-	50,025
Financial investments portfolio*	492,119	8,443,090	-	8,935,209	-	8,935,209
Financing and advances	-	-	86,135,734	86,135,734	-	86,135,734
Derivative assets	134,141	-	-	134,141	-	134,141
Other assets	-	-	8,495,250	8,495,250	274,895	8,770,145
Statutory deposits with Bank Negara Malaysia	-	-	3,084,000	3,084,000	-	3,084,000
Deferred tax assets	-	-	-	-	267,403	267,403
TOTAL ASSETS	626,260	8,443,090	115,445,049	124,514,399	542,298	125,056,697

2013	Held-for-trading RM'000	Other financial liabilities RM'000	Sub-total RM'000	Liabilities not in scope of MFRS 139 RM'000	Total RM'000
Liabilities					
Deposits from customers	-	83,017,613	83,017,613	-	83,017,613
Deposits and placements of banks and other financial institutions	-	33,371,301	33,371,301	-	33,371,301
Bills and acceptances payable	-	62,124	62,124	-	62,124
Derivative liabilities	247,952	-	247,952	-	247,952
Other liabilities	-	64,044	64,044	33,871	97,915
Provision for taxation and zakat	-	-	-	192,479	192,479
Subordinated sukuk	-	1,010,782	1,010,782	-	1,010,782
Recourse obligation on financing sold to Cagamas	-	620,976	620,976	-	620,976
TOTAL LIABILITIES	247,952	118,146,840	118,394,792	226,350	118,621,142

***** Financial investments portfolio consists of financial assets at fair value through profit or loss and financial investments available-for-sale.

34. Financial risk management policies (cont'd.)

(c) Credit risk management

1. Credit Risk Management

Credit risk definition

Credit risk arises as a result of customers' or counterparties' failure to fulfil their financial and contractual obligations as and when they arise. These obligations arise from the Bank's direct lending operations, trade finance and its funding, investment and trading activities undertaken by the Bank. As the Bank's primary business is in commercial banking, the Bank's exposure to credit risk is primarily from its lending activities and financing to retail, small and medium enterprises ("SMEs") business and corporate borrowers/customers. Other activities such as trading or holding of debt securities or settlement of transactions also expose the Bank to credit risk and counterparty credit risk.

Management of credit risk

Corporate and institutional credit risks are assessed by business units and evaluated and approved by an independent party (Group Risk - Credit Management) where each customer is assigned a credit rating based on the assessment of relevant qualitative and quantitative factors including customer's financial position, future cash flows, types of facilities and securities offered.

Reviews are conducted at least once a year with updated information on the customer's financial position, market position, industry and economic condition and account conduct. Corrective actions are taken when the accounts show signs of credit deterioration.

Retail credit exposures are managed on a programme basis. Credit programmes are assessed jointly between credit risk and business units. Reviews on credit programmes are conducted at least once a year to assess the performance of the portfolio.

Counterparty credit risk exposures are managed via counterparty limits either on a single name basis or counterparty group basis that also adheres to BNM's Single Counterparty Exposure Limits. These exposures are actively monitored to protect the Bank's statement of financial position in the event of counterparty default. The Bank monitors and manages its exposures to counterparties on a day-to-day basis.

Bank wide hierarchy of credit approving authorities and committee structures are in place to ensure appropriate underwriting standards are enforced consistently within the Bank.

34. Financial risk management policies (cont'd.)

(c) Credit risk management (cont'd.)

1. Credit Risk Management (cont'd.)

Management of credit risk (cont'd.)

To manage large exposures, the Bank has in place, amongst others, the following limits and related lending guidelines to avoid undue concentration of credit risk in its financing portfolio:

- Countries
- Business Segments
- Economic Sectors
- Single Customer Groups
- Banks & Non-Bank Financial Institutions
- Counterparties
- Collaterals

The Bank has established dedicated teams comprising Corporate Remedial Management at Head Office and Regional Corporate Remedial Management to effectively manage vulnerable corporate and institutional credits of the Bank. Vulnerable consumer credits are managed by the Recovery Management Unit at Head Office and Asset Quality Management Centres at Regional Offices. Special attention is given to these vulnerable credits where more frequent and intensive reviews are performed in order to accelerate remedial action.

Credit Risk Management ("CRM") Framework

The CRM framework includes comprehensive credit risk policies, frameworks, tools and methodologies for identification, measurement, monitoring and control of credit risk on a consistent basis. Components of the CRM framework constitute:

- Strong emphasis in creating and enhancing credit risk awareness.

- Comprehensive selection and training of lending personnel in the management of credit risk.

- Leveraging on knowledge sharing tools including e-learning courses to enhance credit skills within the Group.

34. Financial risk management policies (cont'd.)

(c) Credit risk management (cont'd.)

1. Credit Risk Management (cont'd.)

Credit Risk Management ("CRM") Framework (cont'd.)

The Bank’s credit approving process encompasses pre-approval evaluation, approval and post-approval evaluation. Bank Credit Risk is responsible for developing, enhancing and communicating an effective and consistent credit risk management framework across the Bank to ensure appropriate credit policies are in place to identify, measure, control and monitor such risks.

In view that authority limits are directly related to the risk levels of the borrower and transaction, a Risk-Based Authority Limit structure was implemented based on the Expected Loss ("EL") framework and internally developed Credit Risk Rating System ("CRRS").

Credit Risk Measurement

The Bank’s retail portfolios are under Basel II Advanced Internal Ratings-Based ("AIRB") Approach. This approach calls for more extensive reliance on the Bank’s own internal experience whereby estimations for all the three components of Risk-Weighted Assets ("RWA") calculation namely Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD") are based on its own historical data. Separate PD, EAD and LGD statistical models were developed at portfolio level; each model covering borrowers with fundamentally similar risk profiles in a portfolio. The estimations derived from the models are used as input for RWA calculations.

For non-retail portfolios, the Bank uses internal credit models for evaluating the majority of its credit risk exposures. For Corporate and Bank portfolios, the Bank has adopted the Foundation Internal Ratings-Based ("FIRB") Approach, which allows the Bank to use its internal PD estimates to determine an asset risk weighting.

CRRS is developed to allow the Bank to identify, assess and measure corporate, commercial and small business borrowers’ credit risk. CRRS is a statistical default prediction model. The model was developed and recalibrated to suit the Bank’s banking environment using internal data. The model development process was conducted and documented in line with specific criteria for model development in accordance to Basel II. The EL framework employed in the Bank enables the calculation of expected loss using PD estimates (facilitated by the CRRS), LGD and EAD.

34. Financial risk management policies (cont'd.)

(c) Credit risk management (cont'd.)

1. Credit Risk Management (cont'd.)

Credit Risk Measurement (cont'd.)

To account for differences in risk due to industry and size, CRRS is designed to rate all corporate and commercial borrowers by their respective industry segments (i.e. manufacturing, services, trading, contractors, property developers (single project) and property investors (single property)).

For counterparty risk exposures (on-balance sheet), the Bank employs risk treatments that are in accordance with BNM Guidelines and Basel II requirements. While for off-balance sheet exposures, the Bank measures the credit risk using Credit Risk Equivalent via the Current Exposure Method. This method calculates the Bank's credit risk exposure after considering both the mark-to-market exposures and the appropriate add-on factors for potential future exposures. The add-on factors employed are in accordance with BNM Guidelines and Basel II requirements.

2. Maximum exposure to credit risk

The following analysis represents the Bank's maximum exposure to credit risk of on-balance sheet financial assets and off-balance sheet exposure, excluding any collateral held or other credit enhancements. For on-balance sheet financial assets, the exposure to credit risk equals their carrying amount. For off-balance sheet exposure, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the obligations of the instruments issued are called upon and/or the full amount of the undrawn credit facilities granted to customers.

	Maximum Exposure	
	2014	**2013**
	RM'000	**RM'000**
Credit exposure for on-balance sheet assets:		
Cash and short term funds	**17,863,965**	17,680,040
Deposits and placements with banks and other financial institutions	**-**	50,025
Financial investments portfolio*	**9,247,496**	8,935,209
Financing and advances	**107,729,239**	86,135,734
Derivative assets	**169,535**	134,141
Other financial assets	**7,162,340**	8,495,250
Statutory deposits with Bank Negara Malaysia	**3,778,000**	3,084,000
	145,950,575	124,514,399

34. Financial risk management policies (cont'd.)

(c) Credit risk management (cont'd.)

2. Maximum exposure to credit risk (cont'd.)

	Maximum Exposure 2014 RM'000	2013 RM'000
Credit exposure for off-balance sheet items:		
Direct credit substitutes	**728,537**	633,689
Certain transaction-related contingent items	**1,204,607**	1,165,665
Short-term self-liquidating trade-related contingencies	**186,627**	276,377
Irrevocable commitments to extend credit	**21,588,433**	22,219,899
Miscellaneous	**55,158**	22,064
	23,763,362	24,317,694
Total maximum credit risk exposure	**169,713,937**	148,832,093

The financial effect of collateral (quantification of the extent to which collateral and other enhancements mitigate credit risk) held for financing and advances for the Bank is at 68% as at 31 December 2014 (31 December 2013: 66%). The financial effect of collateral held for other financial assets is not significant.

* Financial investments portfolio consists of financial investments at fair value through profit or loss and financial investments available-for-sale.

34. Financial risk management (cont'd.)

(c) Credit risk management (cont'd.)

3. Credit risk concentration profile

A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Bank analysed the concentration credit risk by geographic purpose and industry segment as follows:

(a) Concentration of credit risk for both on and off balance sheet exposures analysed by geographic purpose are as follows:

2014	Cash and short term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial investments portfolio* RM'000	Financing and advances RM'000	Derivative assets RM'000	Other assets RM'000	Statutory deposits with Bank Negara Malaysia RM'000	Total RM'000	Commitments and contingencies RM'000
Malaysia	**17,863,965**	**-**	**9,247,496**	**108,326,642**	**169,535**	**7,162,340**	**3,778,000**	**146,547,978**	**23,763,362**
Less: Collective allowance	**-**	**-**	**-**	**(597,403)**	**-**	**-**	**-**	**(597,403)**	**-**
	17,863,965	**-**	**9,247,496**	**107,729,239**	**169,535**	**7,162,340**	**3,778,000**	**145,950,575**	**23,763,362**

***** Financial investments portfolio consists of financial assets at fair value through profit or loss and financial investments available-for-sale.

34. Financial risk management (cont'd.)

(c) Credit risk management (cont'd.)

3. Credit risk concentration profile (cont'd.)

2013	Cash and short term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial investments portfolio* RM'000	Financing and advances RM'000	Derivative assets RM'000	Other assets RM'000	Statutory deposits with Bank Negara Malaysia RM'000	Total RM'000	Commitments and contingencies RM'000
Malaysia	17,680,040	50,025	8,935,209	86,717,230	134,141	8,495,250	3,084,000	125,095,895	24,317,694
Less: Collective allowance	-	-	-	(581,496)	-	-	-	(581,496)	-
	17,680,040	50,025	8,935,209	86,135,734	134,141	8,495,250	3,084,000	124,514,399	24,317,694

* Financial investments portfolio consists of financial assets at fair value through profit or loss and financial investments available-for-sale.

34. Financial risk management (cont'd.)

(c) Credit risk management (cont'd.)

3. Credit risk concentration profile (cont'd.)

(b) Concentration of credit risk for both on and off balance sheet exposures analysed by industry sector are as follows:

2014	Cash and short term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial investments portfolio* RM'000	Financing and advances RM'000	Derivative assets RM'000	Other assets RM'000	Statutory deposits with Bank Negara Malaysia RM'000	Total RM'000	Commitments and contingencies RM'000
Agriculture	-	-	222,054	1,649,892	1,606	-	-	1,873,552	475,368
Mining and quarrying	-	-	-	862,877	-	-	-	862,877	65,016
Manufacturing	-	-	91,112	5,533,705	8,729	-	-	5,633,546	604,596
Construction	-	-	112,635	5,494,509	-	-	-	5,607,144	1,742,449
Electricity, gas and water supply	-	-	213,010	1,507,763	21,562	-	-	1,742,335	691,542
Wholesale, retail trade, restaurants and hotels	-	-	-	3,583,867	6	-	-	3,583,873	781,906
Finance, insurance, real estate and business	17,863,965	-	2,801,448	9,593,460	137,343	7,162,340	3,778,000	41,336,556	11,322,479
Transport, storage and communication	-	-	314,416	1,452,173	-	-	-	1,766,589	343,563
Education, health and others	-	-	-	1,440,987	-	-	-	1,440,987	42,505
Household	-	-	-	68,594,070	-	-	-	68,594,070	6,908,734
Others	-	-	5,492,821	8,015,936	289	-	-	13,509,046	785,204
	17,863,965	-	9,247,496	107,729,239	169,535	7,162,340	3,778,000	145,950,575	23,763,362

***** Financial investments portfolio consists of financial assets at fair value through profit or loss and financial investments available-for-sale.

34. Financial risk management (cont'd.)

(c) Credit risk management (cont'd.)

3. Credit risk concentration profile (cont'd.)

2013	Cash and short term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial investments portfolio* RM'000	Financing and advances RM'000	Derivative assets RM'000	Other assets RM'000	Statutory deposits with Bank Negara Malaysia RM'000	Total RM'000	Commitments and contingencies RM'000
Agriculture	-	-	48,133	1,723,776	-	-	-	1,771,909	563,926
Mining and quarrying	-	-	-	489,993	-	-	-	489,993	106,252
Manufacturing	-	-	186,056	3,851,485	103	-	-	4,037,644	534,611
Construction	-	-	80,608	3,641,331	-	-	-	3,721,939	2,685,681
Electricity, gas and water supply	-	-	258,865	1,608,788	47,916	-	-	1,915,569	255,681
Wholesale, retail trade, restaurants and hotels	-	-	-	3,271,943	50	-	-	3,271,993	674,853
Finance, insurance, real estate and business	17,680,040	50,025	2,368,955	7,452,152	86,070	8,495,250	3,084,000	39,216,491	10,361,700
Transport, storage and communication	-	-	453,238	1,505,385	-	-	-	1,958,623	370,297
Education, health and others	-	-	-	6,420,535	-	-	-	6,420,535	247,930
Household	-	-	-	55,476,907	-	-	-	55,476,907	7,833,861
Others	-	-	5,539,355	1,274,935	2	-	-	6,814,292	682,902
Less: Collective allowance	-	-	-	(581,496)	-	-	-	(581,496)	-
	17,680,040	50,025	8,935,209	86,135,734	134,141	8,495,250	3,084,000	124,514,399	24,317,694

* Financial investments portfolio consists of financial assets at fair value through profit or loss and financial investments available-for-sale.

34. Financial risk management policies (cont'd.)

(c) Credit risk management (cont'd.)

4. Collateral

The main types of collateral obtained by the Bank to mitigate credit risk are as follows:

• For mortgages - charges over residential properties;
• For auto financing - ownership claims over the vehicle financed;
• For share margin financing - pledges over securities from listed exchange
• For commercial property financing - charges over the properties being financed; and
• For other financing - charges over business assets such as premises, inventories, trade receivable or deposits

5. Credit quality of financial assets

Credit classification for financial assets

For the purposes of disclosure relating to MFRS 7, all financial assets are categorised into the following:

- neither past due nor impaired
- past due but not impaired
- past due and impaired

The four (4) credit quality categories set out and defined as follows, from very low to high, apart from impaired, describe the credit quality of the Bank's lending. These classifications encompass a range of more granular, internal gradings assigned to financing and advances whilst external gradings are applied to financial investments. There is no direct correlation between the internal and external ratings at a granular level, except to the extent that each falls within a single credit quality band.

Risk Category (Non-Retail)	Probability of default ("PD") Grade	External credit ratings based on S&P's ratings	External credit ratings based on RAM's ratings
Very low	1 - 5	AAA to A-	AAA to AA
Low	6 - 10	A- to BB+	AA to A
Moderate	11 - 15	BB+ to B+	A to BB
High	16 - 21	B+ to CCC	BB to C

34. Financial risk management policies (cont'd.)

(c) Credit risk management (cont'd.)

5. Credit quality of financial assets (cont'd.)

Risk Category (Retail)	Probability of default ("PD") Grade	External credit ratings based on S&P's ratings	External credit ratings based on RAM's ratings
Very low	1 - 2	AAA to BBB-	AAA to A
Low	3 - 5	BB+ to BB-	A to BBB
Moderate	6 - 8	B+ to CCC	BB to B
High	9 - 11	CCC to C	B to C

Risk category is as described below:

Very low: Obligors rated in this category have an excellent capacity to meet financial commitments with very low credit risk.

Low: Obligors rated in this category have a good capacity to meet financial commitments with very low credit risk.

Moderate: Obligors rated in this category have a fairly acceptable capacity to meet financial commitments with moderate credit risk.

High: Obligors rated in this category have uncertain capacity to meet financial commitments and are subject to high credit risk.

Other than the above rated risk categories, other categories used internally are as follows:

Impaired/ default: Obligors with objective evidence of impairment as a result of one or more events that has an impact on the estimated future cash flows of the obligors that can be reliably estimated. The detailed definition is further disclosed in the financial statements.

Unrated: Refer to borrower which are currently not assigned with borrowers' ratings due to unavailability of ratings models.

Sovereign: Refer to obligors which are governments and/or government-related agencies.

34. Financial risk management (cont'd.)

(c) Credit risk management (cont'd.)

6. Credit quality of financial assets - gross financing and advances

Risk categories of gross financing and advances of the Bank have been assessed based on four credit quality classification as described below:

2014		Past due but not impaired					
	Neither past due nor impaired RM'000	Due within 30 days RM'000	Due within 31 to 60 days RM'000	Due within 61 to 90 days RM'000	Total RM'000	Impaired RM'000	Total RM'000
Cashline	2,215,035	42,214	30,988	5,120	78,322	129,799	2,423,156
Term financing	81,217,250	8,010,353	1,793,629	438,683	10,242,665	541,197	92,001,112
Other financing	14,068,872	34,870	6,659	1,099	42,628	3,820	14,115,320
Gross financing and advances	97,501,157	8,087,437	1,831,276	444,902	10,363,615	674,816	108,539,588
Less:							
- Individual allowance							(212,946)
- Collective allowance							(597,403)
							(810,349)
							107,729,239
As a percentage of total gross financing and advances	89.83%	7.45%	1.69%	0.41%	9.55%	0.62%	100.00%

2014	Neither past due nor impaired					
	Very low RM'000	Low RM'000	Moderate RM'000	High RM'000	Unrated RM'000	Total RM'000
Cashline	307,048	440,118	596,852	170,975	700,042	2,215,035
Term financing	22,563,327	30,641,812	15,963,994	1,223,890	10,824,227	81,217,250
Other financing	3,634,934	2,883,009	2,039,832	65,293	5,445,804	14,068,872
Gross financing and advances	26,505,309	33,964,939	18,600,678	1,460,158	16,970,073	97,501,157
As a percentage of total gross financing and advances	24.42%	31.29%	17.14%	1.35%	15.63%	89.83%

34. Financial risk management (cont'd.)

(c) Credit risk management (cont'd.)

6. Credit quality of financial assets - gross financing and advances

2013		Past due but not impaired					
	Neither past due nor impaired RM'000	Due within 30 days RM'000	Due within 31 to 60 days RM'000	Due within 61 to 90 days RM'000	Total RM'000	Impaired RM'000	Total RM'000
Cashline	2,581,955	16,530	14,929	7,865	39,324	141,667	2,762,946
Term financing	65,448,596	5,247,162	1,468,075	405,020	7,120,257	375,490	72,944,343
Other financing	11,138,574	21,898	7,099	780	29,777	3,636	11,171,987
Gross financing and advances	79,169,125	5,285,590	1,490,103	413,665	7,189,358	520,793	86,879,276
Less:							
- Individual allowance							(162,046)
- Collective allowance							(581,496)
							(743,542)
							86,135,734
As a percentage of total gross financing and advances	91.13%	6.08%	1.72%	0.48%	8.28%	0.60%	100.00%

2013	Neither past due nor impaired					
	Very low RM'000	Low RM'000	Moderate RM'000	High RM'000	Unrated RM'000	Total RM'000
Cashline	226,686	855,909	631,000	83,597	784,763	2,581,955
Term financing	16,649,123	23,310,224	15,081,399	1,239,894	9,167,956	65,448,596
Other financing	745,812	4,024,492	1,861,527	85,697	4,421,046	11,138,574
Gross financing and advances	17,621,621	28,190,625	17,573,926	1,409,188	14,373,765	79,169,125
As a percentage of total gross financing and advances	20.28%	32.45%	20.23%	1.62%	16.54%	91.13%

34. Financial risk management (cont'd.)

(c) Credit risk management (cont'd.)

7. Credit quality of financial assets - financial investments portfolio and other financial assets

2014

	Neither past due nor impaired RM'000	Impaired RM'000	Total RM'000	Impairment allowance RM'000	Net total RM'000
Cash and short term funds	17,863,965	-	17,863,965	-	17,863,965
Deposits and placements with banks and other financial institutions	-	-	-	-	-
Financial investments portfolio*	9,247,496	-	9,247,496	-	9,247,496
Derivative assets	169,535	-	169,535	-	169,535
Other financial assets	7,162,340	-	7,162,340	-	7,162,340
Statutory deposits with Bank Negara Malaysia	3,778,000	-	3,778,000	-	3,778,000
	38,221,336	-	38,221,336	-	38,221,336
As a percentage of gross balance	100.00%	-	100.00%		

2014

	Neither past due nor impaired:						
	Sovereign (no rating) RM'000	Very low RM'000	Low RM'000	Moderate RM'000	High RM'000	Unrated RM'000	Total RM'000
Cash and short term funds	12,107,590	231,555	500,366	-	-	5,024,454	17,863,965
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	-
Financial investments portfolio*	6,139,075	2,374,340	734,081	-	-	-	9,247,496
Derivative assets	-	140,694	5,881	22,690	-	270	169,535
Other financial assets	-	-	-	-	-	7,162,340	7,162,340
Statutory deposits with Bank Negara Malaysia	3,778,000	-	-	-	-	-	3,778,000
	22,024,665	2,746,589	1,240,328	22,690	-	12,187,064	38,221,336
As a percentage of gross balance	57.62%	7.19%	3.25%	0.06%	-	31.89%	100.00%

***** Financial investments portfolio consists of financial assets at fair value through profit or loss and financial investments available-for-sale.

34. Financial risk management (cont'd.)

(c) Credit risk management (cont'd.)

7. Credit quality of financial assets - financial investments portfolio and other financial assets

2013

	Neither past due nor impaired RM'000	Impaired RM'000	Total RM'000	Impairment allowance RM'000	Net total RM'000
Cash and short term funds	17,680,040	-	17,680,040	-	17,680,040
Deposits and placements with banks and other financial institutions	50,025	-	50,025	-	50,025
Financial investments portfolio*	8,935,209	-	8,935,209	-	8,935,209
Derivative assets	134,141	-	134,141	-	134,141
Other financial assets	8,495,250	-	8,495,250	-	8,495,250
Statutory deposits with Bank Negara Malaysia	3,084,000	-	3,084,000	-	3,084,000
	38,378,665	-	38,378,665	-	38,378,665
As a percentage of gross balance	100.00%	-	100.00%		

Neither past due nor impaired:

2013	Sovereign (no rating) RM'000	Very low RM'000	Low RM'000	Moderate RM'000	High RM'000	Unrated RM'000	Total RM'000
Cash and short term funds	13,396,969	421,766	511,217	100,284	-	3,249,804	17,680,040
Deposits and placements of banks and other financial institutions	-	-	50,025	-	-	-	50,025
Financial investments portfolio*	6,146,007	1,976,235	803,071	-	-	9,896	8,935,209
Derivative assets	-	11,769	49	85	-	122,238	134,141
Other financial assets	-	-	-	-	-	8,495,250	8,495,250
Statutory deposits with Bank Negara Malaysia	3,084,000	-	-	-	-	-	3,084,000
	22,626,976	2,409,770	1,364,362	100,369	-	11,877,188	38,378,665
As a percentage of gross balance	58.96%	6.28%	3.56%	0.26%	0.00%	30.95%	100.00%

***** Financial investments portfolio consists of financial assets at fair value through profit or loss and financial investments available-for-sale.

34. Financial risk management (cont'd.)

(c) Credit risk management (cont'd.)

8. Credit quality of impaired financial assets

Impaired financial assets analysed by geography are as follows:

2014	Cash and short term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial investments portfolio RM'000	Financing and advances RM'000	Derivative assets RM'000	Other financial assets RM'000	Statutory deposits with Bank Negara Malaysia RM'000	Total RM'000	Commitments and contingencies RM'000
Malaysia	**-**	**-**	**-**	**674,817**	**-**	**-**	**-**	**674,817**	**-**

2013	Cash and short term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial investments portfolio RM'000	Financing and advances RM'000	Derivative assets RM'000	Other financial assets RM'000	Statutory deposits with Bank Negara Malaysia RM'000	Total RM'000	Commitments and contingencies RM'000
Malaysia	-	-	-	520,793	-	-	-	520,793	-

34. Financial risk management (cont'd.)

(c) Credit risk management (cont'd.)

8. Credit quality of impaired financial assets (cont'd.)

Impaired financial assets analysed by industry sectors are as follows:

2014

	Cash and short term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial investments portfolio RM'000	Financing and advances RM'000	Derivative assets RM'000	Other financial assets RM'000	Statutory deposits with Bank Negara Malaysia RM'000	Total RM'000	Commitments and contingencies RM'000
Agriculture	-	-	-	14,100	-	-	-	14,100	-
Mining and quarrying	-	-	-	85	-	-	-	85	-
Manufacturing	-	-	-	75,491	-	-	-	75,491	-
Construction	-	-	-	26,963	-	-	-	26,963	-
Electricity, gas and water supp	-	-	-	252	-	-	-	252	-
Wholesale, retail trade, restaurants and hotels	-	-	-	114,044	-	-	-	114,044	-
Finance, insurance, real estate and business	-	-	-	127,470	-	-	-	127,470	-
Transport, storage and communication	-	-	-	90,090	-	-	-	90,090	-
Education, health and others	-	-	-	7,590	-	-	-	7,590	-
Household	-	-	-	216,916	-	-	-	216,916	-
Others	-	-	-	1,816	-	-	-	1,816	-
	-	-	-	674,817	-	-	-	674,817	-

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34. Financial risk management (cont'd.)

(c) Credit risk management (cont'd.)

8. Credit quality of impaired financial assets (cont'd.)

2013	Cash and short term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial investments portfolio RM'000	Financing and advances RM'000	Derivative assets RM'000	Other financial assets RM'000	Statutory deposits with Bank Negara Malaysia RM'000	Total RM'000	Commitments and contingencies RM'000
Agriculture	-	-	-	17,573	-	-	-	17,573	-
Manufacturing	-	-	-	63,662	-	-	-	63,662	-
Construction	-	-	-	33,650	-	-	-	33,650	-
Electricity, gas and water supp	-	-	-	216	-	-	-	216	-
Wholesale, retail trade, restaurants and hotels	-	-	-	108,342	-	-	-	108,342	-
Finance, insurance, real estate and business	-	-	-	12,319	-	-	-	12,319	-
Transport, storage and communication	-	-	-	141,359	-	-	-	141,359	-
Education, health and others	-	-	-	3,218	-	-	-	3,218	-
Household	-	-	-	131,938	-	-	-	131,938	-
Others	-	-	-	8,516	-	-	-	8,516	-
	-	-	-	520,793	-	-	-	520,793	-

34. Financial risk management (cont'd.)

(c) Credit risk management (cont'd.)

9. Reconciliation of allowance account

Movements in allowances for impairment losses for financial assets are as follows:

2014	Financing and advances RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Other financial assets RM'000	Total RM'000
Individual allowance					
At beginning of the year	162,046	-	-	-	162,046
Allowance made during the year	123,303	-	-	-	123,303
Amount written back in respect of recoveries	(11,726)	-	-	-	(11,726)
Amount written off	(58,321)	-	-	-	(58,321)
Transfer to collective allowance	(2,356)	-	-	-	(2,356)
At end of the year	212,946	-	-	-	212,946
Collective allowance					
At beginning of the year	581,496	-	-	-	581,496
Allowance made during the year	79,251	-	-	-	79,251
Amount written off	(65,700)	-	-	-	(65,700)
Transfer from individual allowance	2,356	-	-	-	2,356
At end of the year	597,403	-	-	-	597,403

34. Financial risk management (cont'd.)

(c) Credit risk management (cont'd.)

9. Reconciliation of allowance account (cont'd.)

2013	Financing and advances RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Other financial assets RM'000	Total RM'000
Individual allowance					
At beginning of the year	94,176	-	-	-	94,176
Allowance made during the year	87,363	-	-	-	87,363
Amount written back in respect of recoveries	(19,419)	-	-	-	(19,419)
Amount written off	-	-	-	-	-
Transfer to collective allowance	(74)	-	-	-	(74)
Exchange differences	-	-	-	-	-
At end of the year	162,046	-	-	-	162,046
Collective allowance					
At beginning of the year	595,517	-	-	-	595,517
Allowance made during the year	59,218	-	-	-	59,218
Amount written off	(73,313)	-	-	-	(73,313)
Transfer from individual allowance	74	-	-	-	74
At end of the year	581,496	-	-	-	581,496

34. Financial risk management policies (cont'd.)

(d) Market risk management

1. Market risk management overview

Market risk management

The Bank recognises market risk as the adverse impact on earnings or capital arising from changes in the level of volatility of market rates or prices such as profit rates, foreign exchange rates, commodity prices and equity prices. Market risk arises through the Bank's trading and balance sheet activities. The primary categories of market risk for the Bank are:

(i) Profit rate risk: arising from changes in yield curves, credit spreads and implied volatilities on profit rate options;

(ii) Foreign exchange rate risk: arising from changes in exchange rates and implied volatilities on foreign exchange options;

(iii) Commodity price risk: arising from changes in commodity prices and commodity option implied volatilities; and

(iv) Equity price risk: arising from changes in the prices of equities, equity indices, equity baskets and implied volatilities on related options.

2. Market risk management framework

Management of trading activities

The Bank’s traded market risk exposures are primarily from proprietary trading, client servicing and market making. The risk measurement techniques employed by the Bank comprise of both quantitative and qualitative measures.

Value at Risk ("VaR") measures the potential loss of value resulting from market movements over a specified period of time within a specified probability of occurrence under normal business situations. The Bank’s Proprietary Trading VaR is computed daily using a one-day holding period with other parameters unchanged. To ensure the relevance and accuracy of the VaR computation, VaR is independently validated on a periodic basis.

34. Financial risk management policies (cont'd.)

(d) Market risk management (cont'd.)

2. Market risk management framework (cont'd.)

Management of trading activities (cont'd.)

Besides VaR, the Bank utilises other non-statistical risk measures, such as profit rate sensitivity, e.g. exposure to a one basis point increase in yields (“PV01”), net open position ("NOP") limit for managing foreign currency exposure and Greek limits for controlling options risk. These measures provide granular information on the Bank’s market risk exposures and are used for control and monitoring purposes.

Management and measurement of Profit Rate Risk ("PRR")/Rate of Return Risk ("RoR") in the banking book

The Bank emphasises the importance of managing PRR/RoR in the banking book as most of the balance sheet items of the Bank generate financing income and expense, which are indexed to profit rates. Volatility of earnings can pose a threat to the Bank’s profitability while economic value provides a more comprehensive view of the potential long-term effects on the Bank’s overall capital adequacy.

PRR/RoR in the banking book encompasses repricing risk, yield curve risk and basis risk arising from different interest rate benchmarks and embedded optionality. The objective of the Bank’s IRR/RoR in the banking book framework is to ensure that all PRR/RoR in the banking book is managed within its risk appetite.

PRR/RoR in the banking book is measured and monitored proactively, using the following principal measurement techniques:

- Repricing Gap Analysis
- Dynamic Simulation
- Economic Value at Risk
- Stress Testing

34. Financial risk management (cont'd.)

(d) Market risk management (cont'd.)

3. Profit rate risk

The Bank is exposed to the risk associated with the effects of fluctuations in the prevailing levels of yield/profit rate on the financial position and cash flows. The fluctuations in yield/profit rate can be influenced by changes in profit rates that affect the value of financial instruments. Yield/Profit rate risk is monitored and managed by the Asset and Liability Management Committee ("ALCO") to protect total net profit income from changes in market profit rates.

The table below summarises the Bank's exposure to yield/profit rate risk. The table indicates effective average yield/profit rates at the reporting date and the periods in which the financial instruments either reprice or mature, whichever is earlier.

2014	Non-trading book Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading books RM'000	Total RM'000	Effective profit rate %
Assets									
Cash and short-term funds	12,839,190	-	-	-	-	5,024,775	-	17,863,965	3.30
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	-	-	-
Financial investments at fair value through profit or loss	-	-	-	-	-	-	1,234,423	1,234,423	0.19
Financial investments available-for-sale	1,000,000	1,100,000	107,986	2,712,312	3,092,775	-	-	8,013,073	3.67
Financing and advances									
- Performing	55,923,869	2,396,538	1,078,673	20,030,828	28,434,863	-	-	107,864,771	5.37
- Impaired*	461,871	-	-	-	-	-	-	461,871	-
- Collective allowance	-	-	-	-	-	(597,403)	-	(597,403)	-
Derivative assets	-	-	-	-	-	-	169,535	169,535	-
Other assets	-	-	-	-	-	11,384,171	-	11,384,171	-
Total assets	70,224,930	3,496,538	1,186,659	22,743,140	31,527,638	15,811,543	1,403,958	146,394,406	

* This is arrived after deducting the individual impairment from the gross impaired financing and advances outstanding.

34. Financial risk management (cont'd.)

(d) Market risk management (cont'd.)

3. Profit rate risk (cont'd.)

	Non-trading book								
2014	**Up to 1 month RM'000**	**>1 - 3 months RM'000**	**>3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading books RM'000**	**Total RM'000**	**Effective profit rate %**
Liabilities and shareholder's equity									
Deposits from customers	73,254,070	1,458,315	6,563,973	18,356,768	62,146	-	-	99,695,272	2.90
Deposits and placements of banks and other financial institutions	8,035,831	3,922,106	7,440,218	6,422,731	650,210	10,073,693	-	36,544,789	3.29
Bills and acceptances payable	-	-	-	-	-	5,947	-	5,947	-
Derivative liabilities	-	-	-	-	-	-	273,864	273,864	-
Subordinated sukuk	-	-	-	2,527,629	-	-	-	2,527,629	4.54
Other liabilities	-	-	-	-	-	117,935	-	117,935	-
Recourse obligation on financing sold to Cagamas	-	-	-	-	-	-	-	-	
Total liabilities	81,289,901	5,380,421	14,004,191	27,307,128	712,356	10,197,575	273,864	139,165,436	
Shareholder's equity	-	-	-	-	-	7,228,970	-	7,228,970	
Total liabilities and shareholder's equity	81,289,901	5,380,421	14,004,191	27,307,128	712,356	17,426,545	273,864	146,394,406	
On-balance sheet profit rate sensitivity gap	(11,064,971)	(1,883,883)	(12,817,532)	(4,563,988)	30,815,282	(1,615,002)	1,130,094	-	
Cumulative profit rate sensitivity gap	(11,064,971)	(12,948,854)	(25,766,386)	(30,330,374)	484,908	(1,130,094)	-		

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34. Financial risk management (cont'd.)

(d) Market risk management (cont'd.)

3. Profit rate risk (cont'd.)

2013	Non-trading book								
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading books RM'000	Total RM'000	Effective profit rate %
Assets									
Cash and short-term funds	14,430,163	-	-	-	-	3,249,877	-	17,680,040	3.03
Deposits and placements with banks and other financial institutions	-	50,025	-	-	-	-	-	50,025	3.60
Financial investments at fair value through profit or loss	-	-	-	-	-	-	492,119	492,119	1.13
Financial investments available-for-sale	472,402	1,090,988	284,434	2,892,623	3,702,643	-	-	8,443,090	3.54
Financing and advances									
- Performing	45,693,275	2,519,978	1,402,619	13,465,643	23,276,967	-	-	86,358,482	4.88
- Impaired*	358,748	-	-	-	-	-	-	358,748	-
- Collective allowance	-	-	-	-	-	(581,496)	-	(581,496)	-
Derivative assets	-	-	-	-	-	-	134,141	134,141	-
Other assets	-	-	-	-	-	12,121,548	-	12,121,548	-
Total assets	60,954,588	3,660,991	1,687,053	16,358,266	26,979,610	14,789,929	626,260	125,056,697	

* This is arrived after deducting the individual impairment from the gross impaired financing and advances outstanding.

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34. Financial risk management (cont'd.)

(d) Market risk management (cont'd.)

3. Profit rate risk (cont'd.)

	Non-trading book								
2013	**Up to 1 month RM'000**	**>1 - 3 months RM'000**	**>3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading books RM'000**	**Total RM'000**	**Effective profit rate %**
Liabilities and shareholder's equity									
Deposits from customers	64,092,559	1,056,884	4,715,630	13,152,540	-	-	-	83,017,613	2.39
Deposits and placements of banks and other financial institutions	6,873,045	11,514,859	438,217	7,659,774	-	6,885,406	-	33,371,301	3.06
Bills and acceptances payable	36,088	-	-	-	-	26,036	-	62,124	3.18
Derivative liabilities	-	-	-	-	-	-	247,952	247,952	-
Subordinated sukuk	-	-	-	1,010,782	-	-	-	1,010,782	4.22
Other liabilities	-	-	-	-	-	290,394	-	290,394	-
Recourse obligation on financing sold to Cagamas	-	-	620,976	-	-	-	-	620,976	3.85
Total liabilities	71,001,692	12,571,743	5,774,823	21,823,096	-	7,201,836	247,952	118,621,142	
Shareholder's equity	-	-	-	-	-	6,435,555	-	6,435,555	
Total liabilities and shareholder's equity	71,001,692	12,571,743	5,774,823	21,823,096	-	13,637,391	247,952	125,056,697	
On-balance sheet profit rate sensitivity gap	(10,047,104)	(8,910,752)	(4,087,770)	(5,464,830)	26,979,610	1,152,538	378,308	-	
Cumulative profit rate sensitivity gap	(10,047,104)	(18,957,856)	(23,045,626)	(28,510,456)	(1,530,846)	(378,308)	-		

34. Financial risk management (cont'd.)

(d) Market risk management (cont'd.)

4. Sensitivity analysis for profit rate risk

The table below shows the sensitivity of the Bank's profit after tax and revaluation reserve to an up and down 100 basis point parallel rate shock:

	2014			2013		
	Tax rate	RM'000 + 100 basis points	RM'000 - 100 basis points	Tax rate	RM'000 + 100 basis points	RM'000 - 100 basis points
Impact to profit before tax	**25%**	**(158,974)**	**158,974**	25%	(182,245)	182,245
Impact to profit after tax		**(119,231)**	**119,231**		(136,684)	136,684

Impact to profit after tax is measured using Earnings-at-Risk ("EaR") methodology on statement of financial position which is simulated based on a set of standardised rate shock on the profit rate gap profile. The profit rate gap is the mismatch of rate sensitive assets and rate sensitive liabilities taking consideration the earlier of repricing or remaining maturity, behavioural assumptions of certain indeterminate maturities products such as current and savings deposits, to reflect the actual sensitivity behaviour of these profit bearing liabilities.

Impact to reserve is assessed by applying rate shock to the yield curve to model the impact on mark-to-market for financial investments of Available-for-Sale ("AFS") portfolio:

	2014		2013	
	RM'000 + 100 basis points	RM'000 - 100 basis points	RM'000 + 100 basis points	RM'000 - 100 basis points
Impact to reserve	**(273,516)**	**273,516**	(337,129)	337,129

34. Financial risk management (cont'd.)

(d) Market risk management (cont'd.)

5. Foreign exchange risk

Foreign exchange risk is the risk to earnings and value of foreign currency assets, liabilities and derivative financial instruments caused by fluctuations in foreign exchange rates.

The banking activities of providing financial products and services to customers expose the Bank to foreign exchange risk. Foreign exchange risk is managed by treasury function, and monitored by Group Risk Management against delegated limits. The Bank’s policy is to ensure, where appropriate and practical, that its capital is protected from foreign exchange exposures. Hedging against foreign exchange exposures is mainly to protect the real economic value, rather than to avoid the short-term accounting impact.

The table below analyses the net foreign exchange positions of the Bank by major currencies, which are mainly in Ringgit Malaysia, Singapore Dollar, the Great Britain Pound, Hong Kong Dollar, United States Dollar, Indonesia Rupiah and Euro. The “others” foreign exchange risk include mainly exposure to India Rupee, Japanese Yen, New Zealand Dollar, Canadian Dollar, Australian Dollar and Papua New Guinea Kina.

2014	Malaysian Ringgit RM'000	Singapore Dollar RM'000	Great Britain Pound RM'000	Hong Kong Dollar RM'000	United States Dollar RM'000	Indonesia Rupiah RM'000	Euro RM'000	Others RM'000	Total RM'000
Assets									
Cash and short-term funds	12,607,956	79,161	815,629	4,589	3,707,416	13,659	335,123	300,432	17,863,965
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	-	-	-
Financial investments portfolio*	9,114,916	-	-	-	132,580	-	-	-	9,247,496
Financing and advances	104,114,204	4,468	556,976	-	2,954,755	-	2,348	96,488	107,729,239
Derivative assets	(894,604)	749,697	10,556	-	299,743	-	-	4,143	169,535
Other assets	2,159,059	(78,586)	44,272	(2,036)	5,334,397	(5,588)	(102,670)	222,621	7,571,469
Statutory deposits with Bank Negara Malaysia	3,778,000	-	-	-	-	-	-	-	3,778,000
Deferred tax assets	34,702	-	-	-	-	-	-	-	34,702
Total assets	130,914,233	754,740	1,427,433	2,553	12,428,891	8,071	234,801	623,684	146,394,406

***** Financial investments portfolio consists of financial assets at fair value through profit or loss and financial investments available-for-sale.

34. Financial risk management (cont'd.)

(d) Market risk management (cont'd.)

5. Foreign exchange risk (cont'd.)

2014	Malaysian Ringgit RM'000	Singapore Dollar RM'000	Great Britain Pound RM'000	Hong Kong Dollar RM'000	United States Dollar RM'000	Indonesia Rupiah RM'000	Euro RM'000	Others RM'000	Total RM'000
Liabilities									
Deposits from customers	99,296,303	3,405	12,045	350	365,289	-	6,651	11,229	99,695,272
Deposits and placements of banks and other financial institutions	23,033,654	-	1,395,165	-	11,238,539	9,114	235,145	633,172	36,544,789
Bills and acceptances payable	5,947	-	-	-	-	-	-	-	5,947
Derivative liabilities	(1,204,759)	749,697	423,195	-	307,215	-	4,675	(6,159)	273,864
Other liabilities	74,331	(2,463)	6,316	-	(1,159)	-	10,148	(7,507)	79,666
Provision for taxation and zakat	38,269	-	-	-	-	-	-	-	38,269
Subordinated sukuk	2,527,629	-	-	-	-	-	-	-	2,527,629
Recourse obligation on financing sold to Cagamas	-	-	-	-	-	-	-	-	-
Total liabilities	123,771,374	750,639	1,836,721	350	11,909,884	9,114	256,619	630,735	139,165,436
On-balance sheet open position	7,142,859	4,101	(409,288)	2,203	519,007	(1,043)	(21,818)	(7,051)	7,228,970
Less: Derivative assets	894,604	(749,697)	(10,556)	-	(299,743)	-	-	(4,143)	(169,535)
Add: Derivative liabilities	(1,204,759)	749,697	423,195	-	307,215	-	4,675	(6,159)	273,864
Net open position	6,832,704	4,101	3,351	2,203	526,479	(1,043)	(17,143)	(17,353)	7,333,299

34. Financial risk management (cont'd.)

(d) Market risk management (cont'd.)

5. Foreign exchange risk (cont'd.)

2013	Malaysian Ringgit RM'000	Singapore Dollar RM'000	Great Britain Pound RM'000	Hong Kong Dollar RM'000	United States Dollar RM'000	Indonesia Rupiah RM'000	Euro RM'000	Others RM'000	Total RM'000
Assets									
Cash and short-term funds	14,108,566	67,245	183,009	2,139	2,835,479	8,379	239,897	235,326	17,680,040
Deposits and placements with banks and other financial institutions	50,025	-	-	-	-	-	-	-	50,025
Financial investments portfolio*	8,816,755	-	-	-	118,454	-	-	-	8,935,209
Financing and advances	84,085,152	4,708	1,861	-	2,019,877	-	22,882	1,254	86,135,734
Derivative assets	(304,894)	(13,825)	-	-	552,969	(100,155)	-	46	134,141
Other assets	8,743,840	(6,279)	3,875	(3,092)	22,461	(2,987)	(1,823)	14,150	8,770,145
Statutory deposits with Bank Negara Malaysia	3,084,000	-	-	-	-	-	-	-	3,084,000
Deferred tax assets	267,403	-	-	-	-	-	-	-	267,403
Total assets	118,850,847	51,849	188,745	(953)	5,549,240	(94,763)	260,956	250,776	125,056,697

***** Financial investments portfolio consists of financial assets at fair value through profit or loss and financial investments available-for-sale.

34. Financial risk management (cont'd.)

(d) Market risk management (cont'd.)

5. Foreign exchange risk (cont'd.)

2013	Malaysian Ringgit RM'000	Singapore Dollar RM'000	Great Britain Pound RM'000	Hong Kong Dollar RM'000	United States Dollar RM'000	Indonesia Rupiah RM'000	Euro RM'000	Others RM'000	Total RM'000
Liabilities									
Deposits from customers	82,767,993	1,220	5,151	11,056	206,126	-	9,206	16,861	83,017,613
Deposits and placements of banks and other financial institutions	23,944,425	120	193,221	-	8,648,572	5,017	164,368	415,578	33,371,301
Bills and acceptances payable	62,124								62,124
Derivative liabilities	(50,107)	82,200	561,718	-	(245,712)	(100,155)	-	8	247,952
Other liabilities	81,255	808	(404,559)	-	413,336	-	7,763	(688)	97,915
Provision for taxation and zakat	192,479	-	-	-	-	-	-	-	192,479
Subordinated sukuk	1,010,782	-	-	-	-	-	-	-	1,010,782
Recourse obligation on financing sold to Cagamas	620,976	-	-	-	-	-	-	-	620,976
Total liabilities	108,629,927	84,348	355,531	11,056	9,022,322	(95,138)	181,337	431,759	118,621,142
On-balance sheet open position	10,220,920	(32,499)	(166,786)	(12,009)	(3,473,082)	375	79,619	(180,983)	6,435,555
Less: Derivative assets	304,894	13,825	-	-	(552,969)	100,155	-	(46)	(134,141)
Add: Derivative liabilities	(50,107)	82,200	561,718	-	(245,712)	(100,155)	-	8	247,952
Net open position	10,475,707	63,526	394,932	(12,009)	(4,271,763)	375	79,619	(181,021)	6,549,366

34. Financial risk management policies (cont'd.)

(d) Market risk management (cont'd.)

6. Sensitivity analysis for foreign exchange risk

Foreign currency risk

Foreign exchange risk arises from the movements in exchange rates that adversely affect the revaluation of the Bank and the foreign currency positions.

	2014		2013	
	RM'000	RM'000	RM'000	RM'000
	1% appreciation	1% depreciation	1% appreciation	1% depreciation
Impact to profit after tax and reserves	**(4,209)**	**4,209**	(4,512)	4,512

Interpretation of impact

The Bank measures the foreign exchange sensitivity based on the foreign exchange net open positions (including of foreign exchange structural position) under an adverse movement in all foreign currencies against reporting currency (MYR). The result implies that the Bank may subject to additional translation (loss) / gain if MYR appreciated/depreciated against other currencies and vice versa.

(e) Liquidity risk management

1. Liquidity risk management overview

Liquidity risk management

Liquidity risk is defined as the adverse impact to the Bank's financial condition or overall safety and soundness that could arise from its inability (or perceived inability) to meet its obligations.

Liquidity policies and frameworks are reviewed annually and endorsed by ALCO and approved by RMC prior to implementation. The Bank's liquidity risk position is actively discussed and managed at the ALCO and RMC on a monthly basis in line with the approved guidelines and policies.

34. Financial risk management policies (cont'd.)

(e) Liquidity risk management (cont'd.)

1. Liquidity risk management overview (cont'd.)

Liquidity Risk Management Framework

The Bank has taken BNM Liquidity Framework and leading practices as a foundation to manage and measure its liquidity risk exposure. The Bank also uses a range of tools to monitor and control liquidity risk exposure such as liquidity gap, early warning signals, liquidity indicators and stress testing. The liquidity positions of the Bank are monitored regularly against the established policies, procedures and limits.

Diversification of liquidity sources

The Bank has a diversified liability structure to meet its funding requirements. The primary source of funding includes customer deposits, interbank deposits, debt securities, swap market, bank financing syndication and medium term funds. The Bank also initiates and implements strategic fund raising programmes as well as institutes standby lines with external parties on a need basis. Sources of liquidity are regularly reviewed to maintain a wide diversification by currency, provider, product and term.

Management of liquidity risk

For day-to-day liquidity management, the treasury operations will ensure sufficient funding to meet its intraday payment and settlement obligations on a timely basis. Besides, the process of managing liquidity risk also includes:

- Maintaining a sufficient amount of unencumbered high quality liquidity buffer as a protection against any unforeseen interruption to cash flows;
- Managing short and long-term cash flows via maturity mismatch report and various indicators;
- Monitoring depositor concentration at the Bank levels to avoid undue reliance on large depositors;
- Managing liquidity exposure by domestic and significant foreign currencies;
- Diversifying funding sources to ensure proper funding mix;

34. Financial risk management policies (cont'd.)

(e) Liquidity risk management (cont'd.)

1. Liquidity risk management overview (cont'd.)

Management of liquidity risk (cont'd.)

For day-to-day liquidity management, the treasury operations will ensure sufficient funding to meet its intraday payment and settlement obligations on a timely basis. Besides, the process of managing liquidity risk also includes (cont'd.):

- Conducting liquidity stress testing under various scenarios as part of prudent liquidity control;

- Maintaining a robust contingency funding plan that includes strategies, decision-making authorities, internal and external communication and courses of action to be taken under different liquidity crisis scenarios; and

- Conducting Contingency Funding Plan ("CFP") testing to examine the effectiveness and robustness of the plans.

Stress Testing and Contingency Funding Plan

The Group uses stress testing and scenario analysis to evaluate the impact of sudden stress events on liquidity position. Scenarios are based on hypothetical events that include bank specific crisis and general market crisis scenarios. The stress test result provides an insight of the Group’s funding requirements during different levels of stress environments and is closely linked to the Group’s CFP, which provides a systemic approach in handling any unexpected liquidity disruptions. The plan encompasses strategies, decision-making authorities, internal and external communication and courses of action to be taken under different liquidity crisis scenarios.

The Group performs CFP tests regularly to ensure the effectiveness and operational feasibility of the CFP. The key aspects of the testing are to focus on the preparedness of key senior management and their respective alternate in handling a simulated distress funding situation. It also provides exposure and develops capabilities on how to respond to a liquidity crisis situation and operate effectively with each other under challenging circumstances.

34. Financial risk management (cont'd.)

(e) Liquidity risk management (cont'd.)

2. Contractual maturity of total assets and liabilities

The table below analyses assets and liabilities (inclusive of non-financial instruments) of the Bank in the relevant maturity tenures based on remaining contractual maturities as at 31 December 2014 and 31 December 2013.

2014	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	No-specific maturity RM'000	Total RM'000
Assets									
Cash and short term funds	17,863,965	-	-	-	-	-	-	-	17,863,965
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	-	-	-
Financial investments portfolio*	1,467,775	1,826,998	85,112	62,524	2,122,300	590,012	3,092,775	-	9,247,496
Financing and advances	12,794,692	3,397,704	880,655	220,964	9,267,377	7,916,025	73,251,822	-	107,729,239
Derivative assets	23,844	26,041	23,320	34,839	35,959	4,370	21,162	-	169,535
Other financial assets	-	-	-	7,162,340	-	-	-	409,129	7,571,469
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	-	3,778,000	3,778,000
Deferred tax assets	-	-	-	-	-	-	-	34,702	34,702
Total assets	32,150,276	5,250,743	989,087	7,480,667	11,425,636	8,510,407	76,365,759	4,221,831	146,394,406
Liabilities									
Deposits from customers	64,272,820	10,162,149	13,799,409	10,491,731	35,947	871,071	62,145	-	99,695,272
Deposits and placements of banks and other financial institutions	18,109,524	3,922,106	2,581,956	4,858,261	6,239,746	182,984	650,212	-	36,544,789
Bills and acceptances payable	5,947	-	-	-	-	-	-	-	5,947
Derivative liabilities	19,619	26,581	23,367	35,427	78,011	58,196	32,663	-	273,864
Other financial liabilities	-	-	-	79,666	-	-	-	-	79,666
Provision for taxation and zakat	-	-	-	-	-	-	-	38,269	38,269
Subordinated sukuk	-	-	-	-	-	-	2,527,629	-	2,527,629
Recourse obligation on financing sold to Cagamas	-	-	-	-	-	-	-	-	-
Total liabilities	82,407,910	14,110,836	16,404,732	15,465,085	6,353,704	1,112,251	3,272,649	38,269	139,165,436
Net liquidity gap	(50,257,634)	(8,860,093)	(15,415,645)	(7,984,418)	5,071,932	7,398,156	73,093,110	4,183,562	7,228,970

***** Financial investments portfolio consists of financial assets at fair value through profit or loss and financial investments available-for-sale.

34. Financial risk management (cont'd.)

(e) Liquidity risk management (cont'd.)

2. Contractual maturity of total assets and liabilities (cont'd.)

2013	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	No-specific maturity RM'000	Total RM'000
Assets									
Cash and short term funds	17,680,040	-	-	-	-	-	-	-	17,680,040
Deposits and placements with banks and other financial institutions	-	50,025	-	-	-	-	-	-	50,025
Financial investments portfolio*	722,317	1,187,865	245,051	126,196	2,396,980	554,045	3,702,756	-	8,935,209
Financing and advances	8,144,817	2,604,344	1,255,062	310,098	5,990,562	10,305,548	57,525,303	-	86,135,734
Derivative assets	13,285	16,617	18,983	9,102	57,266	18,889	-	-	134,141
Other financial assets	-	-	-	8,495,250	-	-	-	274,895	8,770,145
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	-	3,084,000	3,084,000
Deferred tax assets	-	-	-	-	-	-	-	267,403	267,403
Total assets	26,560,459	3,858,851	1,519,096	8,940,647	8,444,807	10,878,482	61,228,059	3,626,298	125,056,697
Liabilities									
Deposits from customers	48,208,002	5,878,669	16,431,545	11,778,467	56,126	604,347	60,457	-	83,017,613
Deposits and placements of banks and other financial institutions	13,758,451	11,514,859	28,931	409,286	2,050,730	5,609,045	-	-	33,371,301
Bills and acceptances payable	62,124	-	-	-	-	-	-	-	62,124
Derivative liabilities	15,795	16,526	20,431	9,670	57,571	109,705	18,254	-	247,952
Other financial liabilities	-	-	-	86,095	-	-	-	11,820	97,915
Provision for taxation and zakat	-	-	-	-	-	-	-	192,479	192,479
Subordinated sukuk	-	-	-	-	-	-	1,010,782	-	1,010,782
Recourse obligation on financing sold to Cagamas	-	-	-	620,976	-	-	-	-	620,976
Total liabilities	62,044,371	17,410,055	16,480,907	12,904,494	2,164,426	6,323,097	1,089,493	204,299	118,621,142
Net liquidity gap	(35,483,912)	(13,551,204)	(14,961,811)	(3,963,847)	6,280,381	4,555,384	60,138,566	3,421,999	6,435,555

***** Financial investments portfolio consists of financial assets at fair value through profit or loss and financial investments available-for-sale.

34. Financial risk management (cont'd.)

(e) Liquidity risk management (cont'd.)

2. Contractual maturity of total assets and liabilities (cont'd.)

The tables below present the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the end of the reporting period. The amounts disclosed in the table are the contractual undiscounted cash flow.

2014	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Non-derivative liabilities								
Deposits from customers	64,272,820	10,162,149	13,799,409	10,491,731	35,947	1,010,031	-	99,772,087
Deposits and placements of banks and other financial institutions	18,113,032	3,939,972	2,605,342	4,866,699	6,239,746	182,984	650,211	36,597,986
Bills and acceptances payable	5,947	-	-	-	-	-	-	5,947
Other financial liabilities	-	-	-	50,235	-	-	-	50,235
Subordinated sukuk	-	56,725	-	56,725	340,350	226,900	2,770,475	3,451,175
Recourse obligation on financing sold to Cagamas	-	-	-	-	-	-	-	-
	82,391,799	14,158,846	16,404,751	15,465,390	6,616,043	1,419,915	3,420,686	139,877,430

	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Commitments and contingencies								
Direct credit substitutes	45,311	44,830	67,133	176,765	105,570	51,065	185,000	675,674
Certain transaction-related contingent items	42,134	54,372	112,799	131,690	389,208	440,358	34,046	1,204,607
Short-term self-liquidating trade-related contingencies	42,599	129,517	12,517	22,290	19,984	12,584	-	239,491
Irrevocable commitments to extend credit	-	-	-	13,503,588	8,084,845	-	-	21,588,433
Miscellaneous	55,158	-	-	-	-	-	-	55,158
	185,202	228,719	192,449	13,834,333	8,599,607	504,007	219,046	23,763,363

34. Financial risk management (cont'd.)

(e) Liquidity risk management (cont'd.)

2. Contractual maturity of total assets and liabilities (cont'd.)

2013	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Non-derivative liabilities								
Deposits from customers	48,208,002	5,878,669	16,431,545	11,778,467	56,126	677,951	75,000	83,105,761
Deposits and placements of banks and other financial institutions	13,759,048	11,522,879	28,931	413,237	2,031,580	5,628,195	-	33,383,869
Bills and acceptances payable	62,124	-	-	-	-	-	-	62,124
Other financial liabilities	-	-	-	64,044	-	-	-	64,044
Subordinated sukuk	-	21,100	21,100	-	126,600	84,400	1,063,300	1,316,500
Recourse obligation on financing sold to Cagamas	-	-	-	633,552	-	-	-	633,552
	62,029,174	17,422,648	16,481,576	12,889,301	2,214,306	6,390,546	1,138,300	118,565,850

	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Commitments and contingencies								
Direct credit substitutes	21,094	36,211	65,523	140,068	60,550	80,243	230,000	633,689
Certain transaction-related contingent items	51,876	71,490	101,163	131,577	355,995	96,265	357,299	1,165,665
Short-term self-liquidating trade-related contingencies	55,894	120,992	53,123	27,515	6,266	12,587	-	276,377
Irrevocable commitments to extend credit	-	-	-	16,049,084	6,170,815	-	-	22,219,899
Miscellaneous	22,064	-	-	-	-	-	-	22,064
	150,928	228,693	219,809	16,348,244	6,593,626	189,095	587,299	24,317,694

34. Financial risk management (cont'd.)

(e) Liquidity risk management (cont'd.)

3. Contractual maturity of financial liabilities on an undiscounted basis

The table below analyses the Bank’s derivative financial liabilities that will be settled on a net basis into relevant maturity groupings by remaining contractual maturities at the end of the reporting period. The amounts disclosed in the table are the contractual undiscounted cash flow.

2014	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Net settled derivatives								
Derivative financial liabilities								
Trading derivatives								
- Profit rate derivatives	160	(4,886)	(4,743)	(7,982)	(11,508)	169	11,398	(17,392)
Hedging derivatives								
- Profit rate derivatives	-	(2,288)	(698)	(2,934)	(4,715)	3,693	-	(6,942)
	160	(7,174)	(5,441)	(10,916)	(16,223)	3,862	11,398	(24,334)

2014	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Gross settled derivatives								
Derivative financial liabilities								
Trading derivatives								
Foreign exchange derivatives:								
- Outflow	(1,322,718)	(633,305)	(2,717,257)	(649,282)	(180,002)	-	-	(5,502,564)
- Inflow	4,237,589	2,063,225	1,822,025	2,187,004	546,370	-	-	10,856,213
Hedging derivatives								
Derivatives:								
- Outflow	(1,486)	-	(11,440)	(13,136)	(57,101)	(1,160,130)	-	(1,243,293)
- Inflow	19,758	-	64,377	83,907	339,229	4,155,001	-	4,662,272
	2,933,143	1,429,920	(842,295)	1,608,493	648,496	2,994,871	-	8,772,628

34. Financial risk management (cont'd.)

(e) Liquidity risk management (cont'd.)

3. Contractual maturity of financial liabilities on an undiscounted basis (cont'd.)

The table below analyses the Bank's derivative financial liabilities that will be settled on a net basis into relevant maturity groupings by remaining contractual maturities at the end of the reporting period. The amounts disclosed in the table are the contractual undiscounted cash flow.

2013	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Net settled derivatives								
Derivative financial liabilities								
Hedging derivatives								
- Profit rate derivatives	557	-	-	557	(11,667)	-	-	(10,553)
Hedging derivatives								-
- Profit rate derivatives	154	(1,475)	(914)	(97)	(24,820)	(22,288)	-	(49,440)
	711	(1,475)	(914)	460	(36,487)	(22,288)	-	(59,993)

2013	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Gross settled derivatives								
Derivative financial liabilities								
Trading derivatives								
Foreign exchange derivatives:	(595)	(1,169)	-	(551,973)	-	-		(553,737)
- Outflow	3,153	1,116	-	164,175	-	-	-	168,444
- Inflow								
Hedging derivatives								
Derivatives:								
- Outflow	(13,775)	(15,159)	(28,887)	(43,189)	(244,173)	(453,803)	-	(798,986)
- Inflow	13,929	13,684	27,973	43,093	219,354	431,515	-	749,548
	2,712	(1,528)	(914)	(387,894)	(24,819)	(22,288)	-	(434,731)

34. Financial risk management policies (cont'd.)

(f) Operational risk management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

The Bank's operational risk management is premised on the three lines of defence concept. Risk taking units (Strategic Business Unit), as first line of defence are primarily responsible for the day-to-day management of operational risks within their respective business operations. They are responsible for establishing and maintaining their respective operational manuals and ensuring that activities undertaken by them comply with the Bank's operational risk management framework.

The Operational Risk Management ("ORM") team, as the second line of defence, is responsible for the formulation and implementation of operational risk management framework within the Bank, which encompasses the operational risk management strategy and governance structure. Another key function is the development and implementation of operational risk management tools and methodologies to identify, measure, monitor and control operational risks.

Internal Audit plays the third line of defence by providing independent assurance in respect of the overall effectiveness of the operational risk management process, which includes performing independent review and periodic validation of the ORM framework and process as well as conducting regular review on implementation of ORM tools by ORM and the respective business units.

35. Fair values of financial assets and financial liabilities

This note provides fair value measurement information for both financial and non-financial instruments and is structured as follows:

(a) Valuation principles
(b) Valuation techniques
(c) Fair value measurements and classification within the fair value hierarchy
(d) Transfers between Level 1 and Level 2 in the fair value hierarchy
(e) Movements of Level 3 instruments
(f) Sensitivity of fair value measurements to changes in unobservable input assumptions.
(g) Financial instruments not measured at fair value

35. Fair values of financial assets and financial liabilities (cont'd.)

(a) Valuation principles

Fair value is defined as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market as of the measurement date. The Bank determines the fair value by reference to quoted prices in active markets or by using valuation techniques based on observable inputs or unobservable inputs. Management judgment is exercised in the selection and application of appropriate parameters, assumptions and modelling techniques where some or all of the parameter inputs are not observable in deriving fair value. The Bank has also established a framework and policies that provide guidance concerning the practical considerations, principles and analytical approaches for the establishment of prudent valuation for financial instruments measured at fair value.

Valuation adjustment is also an integral part of the valuation process. Valuation adjustment is to reflect the uncertainty in valuations generally for products that are less standardised, less frequently traded and more complex in nature. In making a valuation adjustment, the Bank follow methodologies that consider factors such as bid-offer spread, unobservable prices/inputs in the market and uncertainties in the assumptions/parameters.

The Bank continuously enhances their design, validation methodologies and processes to ensure the valuations are reflective. The valuation models are validated both internally and externally, with periodic reviews to ensure the model remains suitable for their intended use.

For disclosure purposes, the level in the hierarchy within which the instruments is classified in its entirety is based on the lowest level input that is significant to the position's fair value measurements:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets and

  Refers to instruments which are regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, and those prices which represent actual and regularly occurring market transactions in an arm’s length basis. Such financial instruments include actively traded government securities, listed derivatives and cash products traded on exchange.

35. Fair values of financial assets and financial liabilities (cont'd.)

(a) Valuation principles (cont'd.)

- Level 2: Valuation techniques for which all significant inputs are, or are based on, observable market data

  Refers to inputs other than quoted price included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices). Examples of level 2 financial instruments include over–the–counter (OTC) derivatives, corporate and other government bonds, less illiquid equities and consumer financing and advances with homogeneous or similar features in the market.

- Level 3: Valuation techniques for which significant inputs are not based on observable market data

  Refers to financial instruments where Fair Value is measured using significant unobservable market inputs. The valuation technique is consistent with the Level 2. The chosen valuation technique incorporates the Banks' own assumptions and data. Examples of level 3 instruments include corporate bonds in illiquid markets, private equity investments and financing and advances priced primarily based on internal credit assessment.

(b) Valuation techniques

The valuation techniques used for the financial and non-financial instruments that are not determined by reference to quoted prices (Level 1), are described below:

Derivatives, financing and advances and financial liabilities

The fair values of the Bank's derivative instruments, financing and advances and financial liabilities are derived using discounted cash flows analysis, option pricing and benchmarking models.

Financial assets designated at fair value through profit or loss, financial assets held-for-trading, financial investments available-for-sale and financial investments held-to-maturity.

The fair values of financial assets and financial investments are determined by reference to prices quoted by independent data providers and independent broker quotations.

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35. Fair values of financial assets and financial liabilities (cont'd.)

(c) Fair value measurements and classification within the fair value hierarchy

The classification in the fair value hierarchy of the Bank's financial and non-financial assets and liabilities measured at fair value is summarised in the table below:

	Quoted Market Price Level 1 RM'000	Valuation technique using Observable Inputs Level 2 RM'000	Valuation technique using Unobservable Inputs Level 3 RM'000	Total RM'000
As at 31 December 2014				
Financial assets measured at fair values:				
Financial assets at FVTPL	**-**	**1,234,423**	**-**	**1,234,423**
Financial investments AFS	**-**	**8,013,073**	**-**	**8,013,073**
Derivative assets	**-**	**169,535**	**-**	**169,535**
	-	**9,417,031**	**-**	**9,417,031**
Financial liabilities measured at fair values:				
Derivative liabilities	**-**	**188,835**	**85,029**	**273,864**
	-	**188,835**	**85,029**	**273,864**

	Quoted Market Price Level 1 RM'000	Valuation technique using Observable Inputs Level 2 RM'000	Valuation technique using Unobservable Inputs Level 3 RM'000	Total RM'000
As at 31 December 2013				
Financial assets measured at fair values:				
Financial assets at FVTPL	-	492,119	-	492,119
Financial investments AFS	-	8,443,090	-	8,443,090
Derivative assets	-	134,141	-	134,141
	-	9,069,350	-	9,069,350
Financial liabilities measured at fair values:				
Derivative liabilities	-	158,604	89,348	247,952
	-	158,604	89,348	247,952

During the current and prior years, no transfers were made between Level 1 and Level 2.

35. Fair values of financial assets and financial liabilities (cont'd.)

(d) Movements of Level 3 instruments

The following tables present additional information about Level 3 assets and liabilities measured at fair value on a recurring basis.

	Derivative assets 2014 RM'000	Derivative liabilities 2014 RM'000	Derivative assets 2013 RM'000	Derivative liabilities 2013 RM'000
At 1 January 2014/2013	**-**	**89,348**	-	62,394
Gain/(losses) recognised in income statement	**-**	**(18,204)**	-	(4,003)
Purchases	**-**	**13,885**	-	30,957
Issues	**-**	**-**	-	-
Settlements	**-**	**-**	**-**	**-**
At 31 December 2014/2013	**-**	**85,029**	-	89,348
Total gain/(losses) recognised in income statement for financial instruments measured at fair value at the end of the reporting period	**0**	**(18,204)**	-	(4,003)
Total losses recognised in other comprehensive statement for financial instruments measured at fair value at the end of the reporting period	**-**	**-**	-	-

35. Fair values of financial assets and financial liabilities (cont'd.)

(e) Financial instruments not measured at fair value

The on-balance sheet financial assets and financial liabilities of the Bank whose fair values are required to be disclosed in accordance with MFRS 132 comprise all their assets and liabilities with the exception of provision for current and deferred taxation.

For financing and advances to customers, where such market prices are not available, various methodologies have been used to estimate the approximate fair values of such instruments. These methodologies are significantly affected by the assumptions used and judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in the assumptions could significantly affect these estimates and the resulting fair value estimates. Therefore, for a significant portion of the Bank's financial instruments, including financing and advances to customers, their respective fair value estimates do not purport to represent, nor should they be construed to represent, the amounts that the Bank could realise in a sale transaction at the reporting date. The fair value information presented herein should also in no way be construed as representative of the underlying value of the Bank as a going concern.

The estimated fair values of those on-balance sheet financial assets and financial liabilities as at the reporting date approximate their carrying amounts as shown in the statement of financial position, except for the financial assets and liabilities as stated below.

The table below analyses financial instruments not carried at fair value for which fair value is disclosed, together with their fair values and carrying amount shown in the statements of financial position:

As at 31.12.2014	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total fair value RM'000	Carrying amount RM'000
Financial assets					
Financing and advances	-	32,859,276	76,499,947	109,359,223	107,729,239
Financial liabilities					
Deposits from customers	-	98,780,057	969,160	99,749,217	99,695,272
Deposits and placements of banks and other financial institutions	-	36,592,540	-	36,592,540	36,544,789
Subordinated sukuk	-	2,546,049	-	2,546,049	2,527,629
Recourse obligation on financing sold to Cagamas	-	-	-	-	-

35. Fair values of financial assets and financial liabilities (cont'd.)

(e) Financial instruments not measured at fair value (cont'd.)

As at 31.12.2013	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total fair value RM'000	Carrying amount RM'000
Financial assets					
Financing and advances	-	61,722,398	28,187,695	89,910,093	86,135,734
Financial liabilities					
Deposits from customers	-	82,368,901	913,661	83,282,562	83,017,613
Deposits and placements of banks and other financial institutions	-	33,503,835	-	33,503,835	33,371,301
Subordinated sukuk	-	1,024,349	-	1,024,349	1,010,782
Recourse obligation on financing sold to Cagamas	-	625,667	-	625,667	620,976

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments.

(i) Financing and advances

The fair values of variable rate financing and advances are estimated to approximate their carrying values. For fixed rate financing, the fair values are estimated based on expected future cash flows of contractual instalment payments, discounted at applicable and prevailing rates at reporting date offered for similar facilities to new borrowers with similar credit profiles. In respect of impaired financing, the fair values are deemed to approximate the carrying values which are net of impairment allowances.

35. Fair values of financial assets and financial liabilities (cont'd.)

(e) Financial instruments not measured at fair value (cont'd.)

Fair values of financial instruments not carried at fair value (cont'd.)

(ii) Recourse obligation on financing sold to Cagamas

The fair values of recourse obligation on hire purchase financing sold to Cagamas are determined based on the discounted cash flows of future instalment payments at applicable prevailing Cagamas rates at reporting date.

(iii) Subordinated Sukuk

The fair values of subordinated obligations are estimated by discounting the expected future cash flows using the applicable prevailing profit rates for borrowings with similar risks profiles.

36. Offsetting of financial assets and financial liabilities

Derivative assets and derivative liabilities are offset and the net amounts are reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Amount not offset in the statement of financial position are related to:

(i) the counterparties' offsetting exposures with the Bank where the right to set-off is only enforceable in the event of default, insolvency or bankruptcy by the counterparties; and

(ii) cash and securities that are received or pledged in respect of the derivative transactions described below.

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36. Offsetting of financial assets and financial liabilities (cont'd.)

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows:

				Amount not offset in the Statement of Financial Position		
As at 31.12.2014	Gross amount of recognised financial assets RM'000	Gross amount offset in the Statement of Financial Position RM'000	Amount presented in the Statement of Financial Position RM'000	Financial instruments RM'000	Financial collateral received/ pledged RM'000	Net amount RM'000
Financial assets						
Derivative assets	169,535	-	169,535	-	-	169,535
Financial liabilities						
Derivative liabilities	273,864	-	273,864	(155,958)	-	117,906
As at 31.12.2013						
Financial assets						
Derivative assets	134,141	-	134,141	-	-	134,141
Financial liabilities						
Derivative liabilities	247,952	-	247,952	(136,681)	-	111,271

37. Capital management

The Bank’s approach to capital management is driven by its strategic objectives and takes into account all relevant regulatory, economic and commercial environments in which the Bank operates. The Bank regards having a strong capital position as essential to the Bank's business strategy and competitive position. As such, implications on the Bank's capital position are taken into account by the Board and senior management prior to implementing major business decisions in order to preserve the Bank's overall capital strength.

The Bank's key thrust of capital management and planning are to diversify its sources of capital; to allocate and deploy capital efficiently, guided by the need to maintain a prudent relationship between available capital and the risks of its underlying businesses; and to meet the expectations of key stakeholders, including investors, regulators and rating agencies. In addition, these policies are also adopted with the aim to:

a) Ensure adequate capital ratios at all times, at levels sufficiently above the minimum regulatory requirements across the Bank;
b) Support the Bank's credit rating from local and foreign rating agencies;
c) Allocate and deploy capital efficiently to businesses to support the Bank's strategic objectives and optimise returns on capital;
d) Remain flexible to take advantage of future opportunities; and
e) Build and invest in businesses, even in a reasonably stressed environment.

The quality and composition of capital are key factors in the Board and senior management’s evaluation of the Bank’s capital adequacy position. The Bank places strong emphasis on the quality of its capital and, accordingly, holds a significant amount of its capital in the form of common equity which is permanent and has the highest loss absorption capability on a going concern basis.

The Bank’s capital management is guided by the Bank Capital Management Framework and Bank Capital Contingency Plan to ensure that capital is managed on an integrated approach and ensure a strong and flexible financial position to manage through economic cycles across the Bank.

The Bank Capital Management Framework is also supplemented by Bank Annual Capital Plan to facilitate efficient capital levels and utilisation across the Bank. The plan is updated on an annual basis covering at least a three year horizon and approved by the Board for implementation at the beginning of each financial year. The Bank Annual Capital Plan is reviewed by the Board semi-annually in order to keep abreast with the latest development on capital management and also to ensure effective and timely execution of the plans contained therein.

37. Capital management (cont'd.)

Under the BNM's Capital Adequacy Framework for Islamic Banks (Capital Components) which commenced with effect from 1 January 2013, banking institutions are required to maintain higher minimum quantity and quality of capital but the requirements will be subject to a series of transitional arrangements and will be phased-in over a period of time, commencing 2013 and to be fully effective by 2019. BNM is also expected to introduce additional capital buffer requirements which will comprise of Capital Conservation Buffer of 2.5% of total RWA and Countercyclical Capital Buffer ranging between 0% - 2.5% of total RWA. Further guidance on the capital buffer requirements will be announced by BNM before 2016 on its computation approach and operations.

In addition, as banking institutions in Malaysia evolve to become key regional players and identified as systemically important, BNM will assess at a later date the need to require large banking institutions to operate at higher levels of capital, commensurate with their size, extent of cross-border activities and complexity of operations.

38. Capital adequacy

(a) Compliance and application of capital adequacy ratios

The capital adequacy ratio of the Bank are computed in accordance with BNM's Capital Adequacy Framework for Islamic Banks (Capital Components) and Capital Adequacy Framework for Islamic Banks (Risk Weighted Assets) issued on 28 November 2012. The total risk weighted assets are computed based on the following approaches:

(i) Credit risk under Internal-Ratings Based Approach
(ii) Market risk under Standardised Approach
(iii) Operational risk under Basic Indicator Approach

The minimum regulatory capital adequacy requirements for CET1, Tier 1 and Total Capital are 4.0%, 5.5% and 8.0% of total RWA for the current financial year ended 31 December 2014.

(b) The capital adequacy ratios of the Bank

The capital adequacy ratios of the Bank as at the reporting dates, are as follows:

	2014	2013
Capital ratios		
CET1 capital ratio	**12.003%**	11.761%
Tier 1 capital ratio	**12.003%**	11.761%
Total capital ratio	**16.088%**	13.711%

38. Capital adequacy (cont'd.)

(c) Components of Tier 1 and Tier 2 capital

	2014 RM'000	2013 RM'000
CET1/Tier 1 Capital		
Paid-up share capital	**246,362**	218,988
Share premium	**4,099,343**	3,725,969
Retained profits	**2,262,558**	2,172,652
Other reserves	**620,707**	317,946
CET1 capital before regulatory adjustments	**7,228,970**	6,435,555
Less: Regulatory adjustment applied in CET1 capital	**(376,012)**	(662,524)
Deferred tax assets	**(34,702)**	(267,403)
Profit equalisation reserve	**(34,456)**	(34,456)
Regulatory reserve	**(274,500)**	-
Shortfall of eligible provision to expected loss	**(32,354)**	(360,665)
Total CET1/Tier 1 capital	**6,852,958**	5,773,031
Tier 2 capital instruments	**2,300,000**	900,000
Collective allowance	**32,255**	56,845
Total Tier 2 capital	**2,332,255**	956,845
Total Capital	**9,185,213**	6,729,876

(d) The breakdown of Assets and Credit Equivalent values (for Off Balance Sheet items) according to Risk Weights are as follows:

	2014 RM'000	2013 RM'000
Standardised Approach exposure	**4,831,718**	3,902,334
Internal Ratings-Based Approach exposure after scaling factor	**51,473,277**	42,043,918
Total risk-weighted assets for credit risk	**56,304,995**	45,946,252
Total risk-weighted assets for credit risk absorbed by the parent^	**(3,930,555)**	(1,210,230)
Total risk-weighted assets for market risk	**573,921**	729,512
Total risk-weighted assets for operational risk	**4,145,952**	3,619,234
Total risk-weighted assets	**57,094,313**	49,084,768

^ In accordance with BNM's guideline on the recognition and measurement of Restricted Profit Sharing Investment Account ("RPSIA") as Risk Absorbent, the credit risk on the assets funded by the RPSIA are excluded from the risk weighted capital ratio ("RWCR") calculation.

39. Shariah disclosures

(a) Shariah governance

The Bank has put in place a sound Shariah governance framework to ensure strict adherence to Shariah requirements in its processes. A dedicated Shariah Committee ("SC") provides Shariah oversight on all material Shariah non-compliance risks across the Bank. Supporting the SC is the Risk Management and Shariah Review and Compliance ("SRC") that provides the day-to-day oversight of the Shariah compliance within the Bank. Underpinning the governance framework is the detailed policies and procedures that includes the required steps to ensure that each transaction executed by the Bank complies with Shariah requirements. A dedicated internal audit team was also established to provide the required check and balance in ensuring strict compliance with the policies and procedures.

Any transactions that are suspected to be Shariah non-compliant are reported to the Risk Management and escalated to the SC for their deliberation and conclusion as to whether any Shariah requirements have been breached. For any shariah non-compliant transactions, the related income will be purified by channeling the amount to an approved charitable organisation.

For the financial year ended 31 December 2014, the nature of transactions deliberated to SC for potential Shariah non-compliant are as follows:

(i) Shariah non-compliant events

	No. of event	2014 RM'000
Non-existence of underlying assets, usage of non-eligible underlying assets and non-execution of aqad	**6**	**27**

	No. of event	2013 RM'000
Lapses in the execution of transactions, non-suitability of marketing collaterals and usage of non-eligible underlying assets	11	52

39. Shariah disclosures (cont'd.)

(a) Shariah governance (cont'd.)

(ii) Sources and uses of charity funds

	2014 RM'000	2013 RM'000
Sources of charity funds		
Shariah non-compliant/prohibited income	**27**	52
Total sources of charity funds during the year	**27**	52
Uses of charity funds		
Contribution to non-profit organisation	**27**	52
Total uses of charity funds during the year	**27**	52
Undistributed charity funds as at 31 December 2014/2013	**-**	-

(b) Recognition and measurement by main class of Shariah contracts

The recognition and measurement of each main class of Shariah contract is dependent on the nature of the products, either financing or deposit product. The accounting policies for each of this product are disclosed in their respective policy.